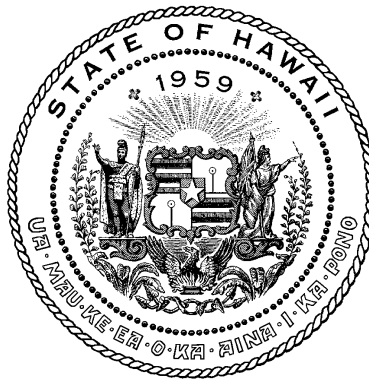


# **STATE OF HAWAII**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

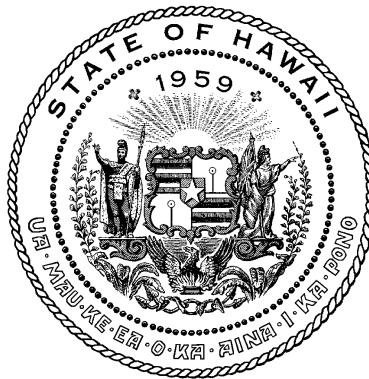


**RUSS K. SAITO**  
**COMPTROLLER**

# **STATE OF HAWAII**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**



**PREPARED BY  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**

**RUSS K. SAITO  
COMPTROLLER**

# STATE OF HAWAII

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June 30, 2003

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***PART I: INTRODUCTORY SECTION***

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# STATE OF HAWAII

## Principal Officials for Finance-Related Functions

June 30, 2003

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**Russ K. Saito**  
**Comptroller**

**Governor**  
**Director of Finance**  
**Director of Taxation**  
**Comptroller**

**Linda Lingle**  
**Georgina Kawamura**  
**Kurt Kawafuchi**  
**Russ K. Saito**

### Notes:

The Director of Finance is also department head of the Department of Budget and Finance.

The Comptroller is also department head of the Department of Accounting and General Services.

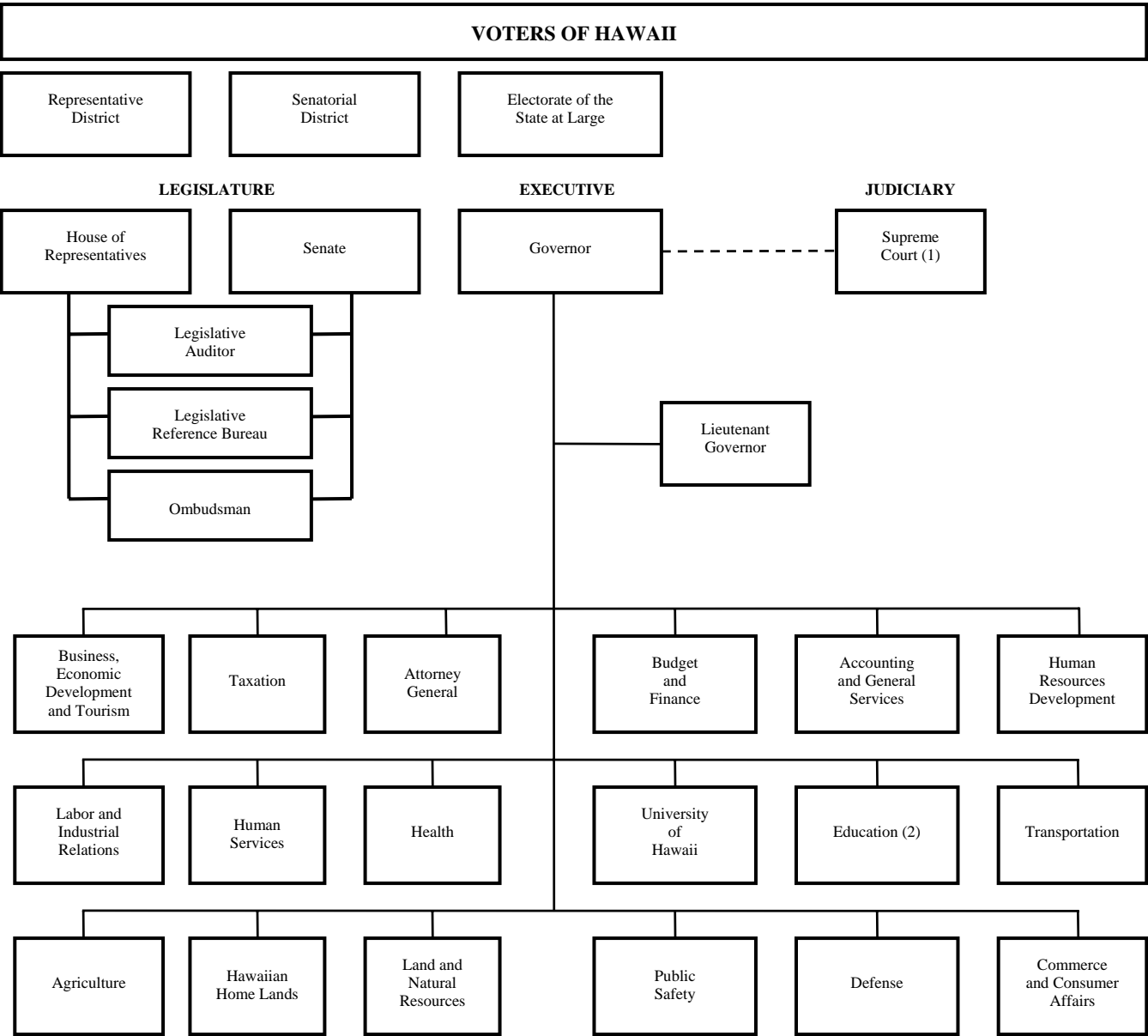
An organizational chart including those and other departments and agencies of the State of Hawaii government is presented on the following page.



STATE OF HAWAII

Organizational Chart

June 30, 2003



(1) The Governor's appointment of justices of the Supreme Court confirmed by the Senate.

(2) Board of Education elected.

LINDA LINGLE  
GOVERNOR



RUSS K. SAITO  
Comptroller  
KATHERINE H. THOMASON  
Deputy Comptroller

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING  
AND GENERAL SERVICES  
P.O. BOX 119  
HONOLULU, HAWAII 96810-0119

December 31, 2003

To the Honorable Governor of the State of Hawaii  
To the Honorable Members of the Twenty-Second State  
Legislature of the State of Hawaii:

In accordance with the provisions of Section 40-5 of the Hawaii Revised Statutes, it is my privilege to present to you the Comprehensive Annual Financial Report (CAFR) of the State of Hawaii (State) for the fiscal year ended June 30, 2003. This report has been prepared by the State's Department of Accounting and General Services. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the State. I believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the State as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of the State's financial affairs has been included.

The report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the State's organizational chart, and a list of principal officials. The financial section includes the independent auditors' report, management's discussion and analysis (MD&A), basic financial statements, notes to basic financial statements, and supplementary information. The statistical section includes selected financial and demographic information.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A is included in Part II of this report.

## **THE REPORTING ENTITY AND ITS SERVICES**

With Hawaii's highly centralized state government, the State provides a full range of services as mandated by statute. These services include, but are not limited to, education (lower and higher), welfare, transportation (highways, airports, and harbors), health, hospitals, public safety, housing, culture and recreation, economic development, and conservation of natural resources.

In accordance with GASB Statement No.14, *The Financial Reporting Entity*, this report includes the various funds comprising the State, including all entities that are accountable to the State. The Employees' Retirement System of the State of Hawaii, which is administered on behalf of public employees for both the state and county governments, and the Office of Hawaiian Affairs, which exists for the betterment of the conditions of native Hawaiians, are not included in the State's basic financial statements because those agencies, based on the fiscal independence and/or separate legal entity status criteria of GASB Statement No. 14, are not accountable to the State.

## **FACTORS AFFECTING FINANCIAL CONDITION**

The information presented in the financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which the State operates.

### **State of the Economy**

#### ***Overview***

Hawaii's economy is currently performing better than it did in 2002 and it has accomplished this improvement under less-than-ideal circumstances. Considering that neither the United States (U.S.) nor the Japanese economy is at its best, and considering that travel has declined worldwide, Hawaii's economy is doing relatively well. It continues to be helped through otherwise slow times by strong investment in construction and real estate. Hawaii is currently among the leading states in personal income growth and is below the national average in unemployment.

#### ***Labor***

Hawaii's civilian labor force and employment are both higher in the first eight months of 2003 than they were in the same period of 2002, having increased 3.1% and 3.8%, respectively. During the first eight months of the year, 578,200 people were employed in Hawaii, 20,950 more than the year before. The unemployment rate was down in the first eight months of 2003, from 4.4% in the same period last year to 3.8%.

The number of wage and salary jobs was up 2.4% for the first eight months of 2003 compared to the same period in 2002. Jobs are up most notably in natural resources, mining, and construction (7.3%); educational services (6.4%); professional and business services (4.3%); transportation, warehousing, and utilities (3.6%); and the federal government (4.0%).

#### ***Taxes***

State General Fund tax revenues increased in the first eight months of 2003 over the same period in 2002. This overall increase is the result of particularly strong general excise and use tax collections offsetting low net collections of individual income and corporate income taxes. Tax revenues distributed to the State General Fund were up 1.7% for the first eight months of 2003 compared to the same period in 2002. Revenues from the general excise and use tax increased by 8.6%, net individual income tax was down by 2.8%, and net corporate income taxes are negative for the first eight months of 2003. Transient accommodations tax revenue increased by 6.7%.

#### ***Personal Income***

Nominal personal income in Hawaii was 5.5% higher in the first quarter of 2003 compared to the first quarter of 2002, the period for which the most recent data are available from the U.S. Bureau of Economic Analysis. Other labor income showed the highest rate of increase (13.1%) followed by proprietors' income (7.2%); wages and salaries (6.4%); transfer payments (3.0%); and dividends, interest, and rent (0.8%). Almost all industries saw year-to-year quarterly increases in earnings with the exception of finance and insurance.

### ***Prices***

Inflation in Hawaii remains relatively low. The Honolulu Consumer Price Index for all urban consumers (CPI-U) rose by only 1.7% in the first half of 2003 compared to the same period in 2002. This was somewhat lower than the 2.5% inflation experienced on the Mainland during the period. The moderate increase in Honolulu's CPI was largely a result of relatively small increases in the two most influential categories, housing and food and beverages which increased 2.3% and 0.8%, respectively.

## **Recent Developments In Hawaii's Major Industries**

### ***Visitor Industry***

The number of visitors arriving by air was down 1.3% comparing the first eight months of 2003 to the first eight months of 2002. Domestic arrivals were up 3.2% but this was offset by an 11.5% decrease in international arrivals (visitors on flights originating outside the U.S.). The number of visitor days (visitor arrivals multiplied by average length of stay) increased 4.7% during the first eight months of 2003 over the same period in 2002. This increase in visitor days in the face of a decline in visitor arrivals results from a 6.0% increase in the length of stay for the first eight months of 2003. Hotel occupancy rates were up slightly, increasing from 71.3% in the first eight months of 2002 to 73.4% in the same period in 2003.

### ***Construction***

Hawaii's construction industry activity continued to grow in the first half of 2003. The general excise tax base for contracting increased by 16.7% while total private building authorizations increased 76.3% over the first half of 2002. Jobs in the construction industry for the first eight months of 2003 were up 7.3% over the January through August period of 2002. Government contracts awarded during the first six months of 2003 are down 33.8% from the first half of 2002.

### ***Agriculture***

The agriculture sector declined during the first eight months of 2003 based on the number of wage and salary jobs in the sector. Agricultural wage and salary jobs decreased 6.3% over the first eight months of 2002, but regained the 7,000 jobs level in August.

## **Outlook for Hawaii's Economy**

The outlook for Hawaii's economy remains optimistic. Hawaii's employment and personal income growth have exceeded the U.S. economy despite a visitor industry that has not fully recovered from recent international incidents. Hawaii's economy remains a function of its visitor market and of the U.S. and Japanese economies. The Blue Chip Economic Indicators (Blue Chip) (a consensus of 50 top U.S. economic forecasters) expects real Gross Domestic Product to rise by 3.1% in 2003 and by 4.4% in 2004. The Japanese real Gross Domestic Product is estimated to increase by 2.2% in 2003 and 2.0% in 2004. The recent appreciation of the yen against the U.S. dollar is good news for Hawaii's tourism industry.

State economists at the Department of Business, Economic Development and Tourism (DBEDT) expect the visitor industry to show a slower growth in 2003 than previous forecasts. Revised 2003 forecasts for visitor arrivals are a 0.6% decrease and a 4.8% increase for visitor expenditures. In 2004, visitor arrivals are forecast to grow by 6.0% and visitor expenditures by 7.5%. Visitor days are forecast to increase by 3.8% in 2003 and by 5.1% in 2004.

Real Personal Income is forecast to show a 3.4% increase in 2004 while real Gross State Product (GSP) should expand at a 5.2% annual rate. Both indicators are forecast to increase by 2.9% and 4.8%, respectively, in 2005. Wage and salary jobs should increase by 2.0% in 2004 and by 1.7% in 2005.

DBEDT expects inflation, as measured by changes in Honolulu's CPI, to grow at a 2.0% rate in 2004 and 2005. The GSP deflator, which is estimated based on the Blue Chip US. Gross Domestic Product projection, is forecast to reach 2.3% in 2004 and 2005.

## **MAJOR INITIATIVES**

### ***Major Capital Improvement Projects***

For fiscal 2003, funding for major capital improvement projects focused on health, education, and general government. They include \$38 million for the Maui Memorial Medical Center expansion; \$25 million for the fourth increment of Kapolei High School, and \$33 million for the acquisition and renovation of the Old Federal Building in downtown Honolulu.

### ***Repairs and Maintenance of Public School Facilities***

The 2001 State Legislature enacted legislation (Act 316, Session Laws of Hawaii (SLH) of 2001) that provided a long-term solution to address both the current backlog and normal preventive repairs and maintenance of public school facilities throughout the State. The overall purpose of this Act was to fund the \$600 million repairs and maintenance backlog over a ten-year period through legislative appropriations while continuing to fund on-going school repairs and maintenance through General Fund appropriations. In 2003, \$120 million was released to address the current backlog.

### ***Procurement Reform***

In fiscal 2003, the Governor signed into law a bill that will make the government contracting process a more open, transparent, and accountable system. This law will increase openness in the award of competitive sealed proposals and professional services contracts and will promote public confidence in the integrity of the procurement process.

The Governor also signed a bill which allows government agencies to purchase goods, services, and construction with state-approved procurement cards. The cards, which will have a pre-determined spending limit, will greatly enhance the ability and flexibility of government employees to make small purchases on a timely basis.

### ***Prescription Drugs***

On May 14, 2003, legislation which gives Hawaii residents easier access to lower-cost generic drugs was signed into law by the Governor. The law will help patients obtain generic prescription medication on a more timely basis, while also greatly enhancing patient safety and reducing prescription medication costs.

## **ACCOUNTING SYSTEM AND BUDGETARY CONTROL**

In developing and maintaining the State's accounting system, consideration is given to the effectiveness of internal control, which is designed to accomplish certain objectives of management including:

1. Transactions are executed in accordance with management's general and specific authorization.
2. Transactions are recorded as necessary to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America and to maintain accountability for assets.
3. Access to assets is permitted only in accordance with management's authorization.

I believe that the State's internal control is effective in accomplishing management's objectives.

By statutory provision, the State prepares a biennial budget for its programs. Budgeted expenditures are derived primarily from the General Appropriations Act of 2001, as amended, and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes and other specific appropriations acts in various SLH. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year.

An allotment system and encumbrance accounting are utilized by the State for budgetary control purposes. Obligations in the form of purchase orders or contracts are recorded as encumbrances at the time purchase orders or contracts are awarded and executed. Open encumbrances are reported as reservations of fund balances at June 30, 2003. To the extent not expended or encumbered, General Fund and Special Revenue Fund appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorizations for other appropriations.

## **CASH MANAGEMENT**

During fiscal 2003, the State Treasury earned \$24.8 million for the General Fund by investing its temporary cash surpluses, a decrease of \$8.8 million from the amount earned in the previous fiscal year. The fiscal 2003 earnings represent an average investment yield of 3.3%, the same average investment yield as the previous fiscal year.

## **RISK MANAGEMENT**

The State obtains third-party coverage for property losses in excess of \$250,000 per occurrence. The property loss limit is \$25 million per occurrence, including named hurricane, earthquake, and flood subject to exclusions. The State also acquires general liability insurance, medical insurance, faithful performance of duty, and depositors' forgery insurance for state employees, but is self-insured for other perils, including workers' compensation and automobile losses. Expenditures for workers' compensation, automobile losses, and general liability (for amounts not covered by insurance) are appropriated annually.

## **EMPLOYEE UNION CONTRACTS**

The State Constitution grants public employees in Hawaii the right to organize for the purpose of collective bargaining as provided by law. There are 13 bargaining units, of which twelve bargaining units have state employees as members. The 12 bargaining units have contractual agreements in force as of the date of this letter.

## **INDEPENDENT AUDIT**

Although the State statutes do not require an annual audit of the State's financial statements, the State engaged a firm of independent certified public accountants to audit the State's basic financial statements for the fiscal year ended June 30, 2003. The Independent Auditors' Report has been included in Part II of this report.

## **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. This was the fourteenth consecutive year that the State has received this prestigious award.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year.

I believe our current report continues to conform to the Certificate of Achievement Program's requirements and I am submitting it to the GFOA to determine its eligibility for the certificate.

## **ACKNOWLEDGEMENTS**

I extend my appreciation to the staff of the various state agencies whose dedicated time and effort made the preparation of this report possible. Their combined efforts have produced a report that I believe will serve as a helpful source of information for anyone having an interest in the financial operations of the State.

Respectfully submitted,

A handwritten signature in dark ink, reading "Russ K Saito". The signature is written in a cursive style with a large, stylized "R" and "S".

Russ K. Saito  
Comptroller, State of Hawaii

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Hawaii

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



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## ***PART II: FINANCIAL SECTION***



P.O. Box 4150  
Honolulu, HI 96812-4150

## Independent Auditors' Report

Comptroller  
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2003, which collectively comprise the State of Hawaii's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Hawaii's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds, which represent 89% and 62%, respectively, of the assets and revenues of the business-type activities, and the University of Hawaii, the Housing and Community Development Corporation of Hawaii, and the Hawaii Health Systems Corporation, which represent 94% and 99%, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Department of Transportation – Airports and Harbors Divisions, the University of Hawaii, the Housing and Community Development Corporation of Hawaii, and the Hawaii Health Systems Corporation, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued a report dated December 31, 2003 on our consideration of the State of Hawaii's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 14 through 28 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Hawaii's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison of the special revenue funds, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and budgetary comparison for the special revenue funds have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 31, 2003

# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2003

---

As management of the State of Hawaii (the State), we offer readers of the State's basic financial statements this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal, which can be found on pages 3 – 8 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### Financial Highlights

#### Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2003 by \$8,500,406 (net assets). Of this amount, \$972,043 (unrestricted net assets) may be used to meet the State's ongoing obligations to citizens and creditors. Net assets of governmental activities decreased by \$555,162 and net assets of business-type activities increased by \$22,035 for a net decrease to the State of \$533,127 from the prior fiscal year.

#### Fund Highlights

At June 30, 2003, the State's Governmental Funds reported combined ending fund balances of \$1,646,596, a decrease of \$304,270 from the prior fiscal year. Of this amount, \$33,017 or 2.01% of total fund balances are available for spending at the State's discretion (unreserved fund balance) and the remaining \$1,613,579 represents amounts reserved for specific purposes. The Proprietary Funds reported net assets at June 30, 2003, of \$2,337,050, an increase of \$22,035 during the fiscal year.

#### Long-Term Liabilities

The State's long-term liabilities increased during the current fiscal year to \$5,578,500, an increase of \$15,215 or 0.27%. During fiscal 2003, the State issued \$300,000 in general obligation bonds for the purpose of financing public improvement projects. The State maintained its Aaa bond rating with Moody's Investors Service and AAA bond rating with Standard and Poor's Corporation and Fitch IBCA, Inc.

### Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the State's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement

## Management's Discussion and Analysis

June 30, 2003

---

for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and unused vacation leave).

Both of the government-wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include general government, public safety, conservation of natural resources, highways, health, welfare, education, culture and recreation, urban redevelopment and housing, economic development and assistance, and interest on long-term debt. The business-type activities of the State include the Department of Transportation – Airports Division (Airports), Department of Transportation – Harbors Division (Harbors) and the Unemployment Compensation Fund, which are considered to be major funds, while the remaining business-type activities are combined into a single aggregate presentation.

The government-wide financial statements include not only the State itself (known as the Primary Government), but also the activities of four legally separate Component Units: the Hawaii Health Systems Corporation, the Hawaii Hurricane Relief Fund, the Housing and Community Development Corporation of Hawaii, and the University of Hawaii, comprised of the State's public institutions of higher education, for which the State is financially accountable. Financial information for these Component Units is reported separately from the financial information presented for the Primary Government itself. The Component Units issue separate financial statements containing management's discussion and analysis.

The government-wide financial statements can be found on pages 30 – 33 of this report.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: (1) Governmental Funds, (2) Proprietary Funds, and (3) Fiduciary Funds.

#### ***Governmental Funds***

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, Governmental Fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements.

Because the focus of Governmental Funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the Governmental Fund balance sheet and the Governmental Fund statement of revenues, expenditures, and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between Governmental Funds and governmental activities in the government-wide financial statements.

## Management's Discussion and Analysis

June 30, 2003

---

Information is presented separately in the Governmental Fund balance sheet and in the Governmental Fund statement of revenues, expenditures, and changes in fund balances (deficit) for the General Fund and Capital Projects Fund, each of which are considered to be major funds. Data from the other Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor Governmental Funds is provided in the form of combining financial statements in the supplementary information section of this report.

The State adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and each Special Revenue Fund to demonstrate compliance with this budget. The budgetary comparison statement for the General Fund is located in the basic financial statements and the budgetary comparison statements for each of the Special Revenue Funds is located in the supplementary information section of this report.

The basic Governmental Fund financial statements can be found on pages 34 – 39 of this report.

### ***Proprietary Funds***

Proprietary Funds are used to show activities that operate more like those of commercial enterprises. They are known as Enterprise Funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the government-wide financial statements. The State uses Enterprise Funds to account for the operations of Airports, Harbors, the Unemployment Compensation Fund, and its other business-type activities.

Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The Proprietary Fund financial statements provide separate information for Airports, Harbors, and the Unemployment Compensation Fund, each of which are considered to be major funds of the State. Conversely, the other business-type activities are combined into a single, aggregate presentation in the Proprietary Fund financial statements.

The basic Proprietary Fund financial statements can be found on pages 40 – 44 of this report.

### ***Fiduciary Funds***

Fiduciary Funds are used to account for resources held for the benefit of parties outside the State. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds.

The basic Fiduciary Fund financial statements can be found on pages 45 – 47 of this report.

### ***Notes to Basic Financial Statements***

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 51 – 100 of this report.

# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2003

### Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents the combining financial statements referred to earlier in connection with non-major Governmental and Fiduciary Funds. These statements are presented immediately following the notes to basic financial statements. The total columns of these combining financial statements carry to the applicable fund financial statements.

### Government-Wide Financial Analysis

The following financial analysis focuses on the Primary Government (governmental and business-type activities of the State). Separate financial statements for each of the State's Component Units, including their respective management's discussion and analysis, can be obtained from the Department of Accounting and General Services.

Net assets are a useful indicator of a government's financial position. For the State, total assets exceed liabilities by \$8,500,406, and decreased \$533,127 or 5.90%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by \$555,162 or 8.26% and business-type activities had an increase of \$22,035 or 0.95%. The following table was derived from the government-wide statement of net assets.

Net Assets						
June 30, 2003 and 2002						
(Amounts in thousands)						
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets:						
Current and other assets	\$ 1,839,808	\$ 2,196,787	\$ 1,479,094	\$ 1,435,002	\$ 3,318,902	\$ 3,631,789
Capital assets	9,133,142	9,270,131	2,069,873	2,093,341	11,203,015	11,363,472
Total assets	10,972,950	11,466,918	3,548,967	3,528,343	14,521,917	14,995,261
Liabilities:						
Long-term liabilities	4,566,089	4,451,879	1,125,889	1,111,406	5,691,978	5,563,285
Other liabilities	243,505	296,521	86,028	101,922	329,533	398,443
Total liabilities	4,809,594	4,748,400	1,211,917	1,213,328	6,021,511	5,961,728
Net assets (deficit):						
Invested in capital assets, net of related debt	5,140,822	5,675,825	1,104,914	1,095,297	6,245,736	6,771,122
Restricted	1,115,472	1,128,075	167,155	175,159	1,282,627	1,303,234
Unrestricted	(92,938)	(85,382)	1,064,981	1,044,559	972,043	959,177
Total net assets	\$ 6,163,356	\$ 6,718,518	\$ 2,337,050	\$ 2,315,015	\$ 8,500,406	\$ 9,033,533



# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2003

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### *Analysis of Net Assets*

By far the largest portion of the State's net assets (\$6,245,736 or 73.48%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets (\$1,282,627 or 15.09%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets (\$972,043 or 11.43%) may be used to meet the State's ongoing obligations to citizens and creditors.

At June 30, 2003, the State is able to report positive balances in all three categories of net assets for the government as a whole. The negative balance in unrestricted net assets (\$92,938) for the State's governmental activities is attributable to recording additional long-term liabilities in the government-wide financial statements as required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

### *Changes in Net Assets*

The State's net assets decreased by \$533,127 or 5.90% during the fiscal year ended June 30, 2003. Approximately 57.75% of the State's total revenues came from taxes, while 28.26% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 12.24% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, and transportation (highways, airports, and harbors).

The following financial information was derived from the government-wide statement of activities and reflects how the State's net assets changed during the fiscal year.

# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2003

### Changes in Net Assets

For the Fiscal Years Ended June 30, 2003 and 2002

(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	\$ 212,993	\$ 196,412	\$ 516,523	\$ 416,227	\$ 729,516	\$ 612,639
Operating grants and contributions	1,586,719	1,480,902	—	181	1,586,719	1,481,083
Capital grants and contributions	69,377	75,716	28,166	23,918	97,543	99,634
General revenues:						
Taxes	3,441,398	3,285,733	—	—	3,441,398	3,285,733
Interest and investment income	60,724	70,911	33,695	60,002	94,419	130,913
Other	8,344	93,718	1,416	—	9,760	93,718
Total revenues	<u>5,379,555</u>	<u>5,203,392</u>	<u>579,800</u>	<u>500,328</u>	<u>5,959,355</u>	<u>5,703,720</u>
Expenses:						
General government	475,517	469,438	—	—	475,517	469,438
Public safety	252,741	247,205	—	—	252,741	247,205
Highways	439,923	346,241	—	—	439,923	346,241
Conservation of natural resources	48,918	30,220	—	—	48,918	30,220
Health	515,492	498,068	—	—	515,492	498,068
Welfare	1,418,224	1,335,207	—	—	1,418,224	1,335,207
Lower education	1,660,595	1,488,825	—	—	1,660,595	1,488,825
Higher education	537,709	455,037	—	—	537,709	455,037
Other education	38,161	88,605	—	—	38,161	88,605
Culture and recreation	71,738	69,354	—	—	71,738	69,354
Urban redevelopment and housing	42,713	1,236	—	—	42,713	1,236
Economic development and assistance	231,605	267,451	—	—	231,605	267,451
Interest expense	200,864	142,118	—	—	200,864	142,118
Airports	—	—	291,871	279,654	291,871	279,654
Harbors	—	—	61,448	46,315	61,448	46,315
Unemployment compensation	—	—	204,344	213,682	204,344	213,682
Nonmajor proprietary fund	—	—	789	788	789	788
Total expenses	<u>5,934,200</u>	<u>5,439,005</u>	<u>558,452</u>	<u>540,439</u>	<u>6,492,652</u>	<u>5,979,444</u>
Decrease in net assets before transfers	(554,645)	(235,613)	21,348	(40,111)	(533,297)	(275,724)
Transfers	(517)	(46,810)	687	17,103	170	(29,707)
Change in net assets	(555,162)	(282,423)	22,035	(23,008)	(533,127)	(305,431)
Net assets – beginning	<u>6,718,518</u>	<u>7,000,941</u>	<u>2,315,015</u>	<u>2,338,023</u>	<u>9,033,533</u>	<u>9,338,964</u>
Net assets – ending	<u>\$ 6,163,356</u>	<u>\$ 6,718,518</u>	<u>\$ 2,337,050</u>	<u>\$ 2,315,015</u>	<u>\$ 8,500,406</u>	<u>\$ 9,033,533</u>

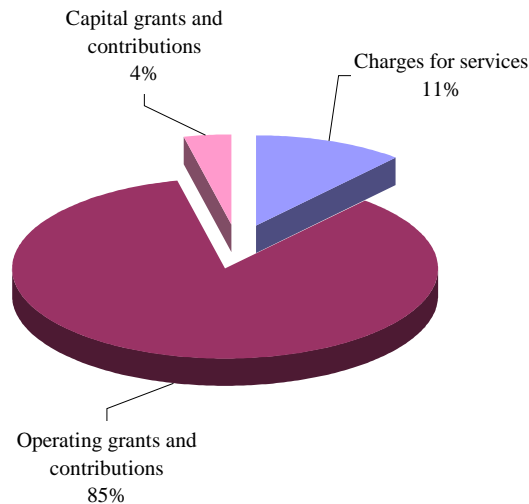
Management’s Discussion and Analysis

June 30, 2003

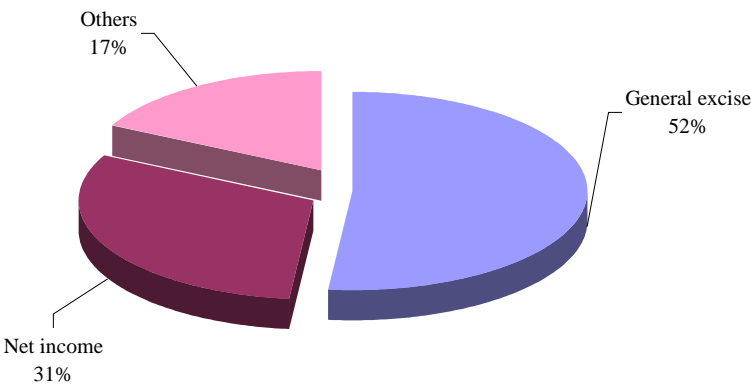
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The following charts depict revenues of the governmental activities for the fiscal year:

**Program Revenues By Source – Governmental Activities  
Fiscal Year Ended June 30, 2003**



**Tax Revenues By Source – Governmental Activities  
Fiscal Year Ended June 30, 2003**



## Management's Discussion and Analysis

June 30, 2003

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### *Analysis of Changes in Net Assets*

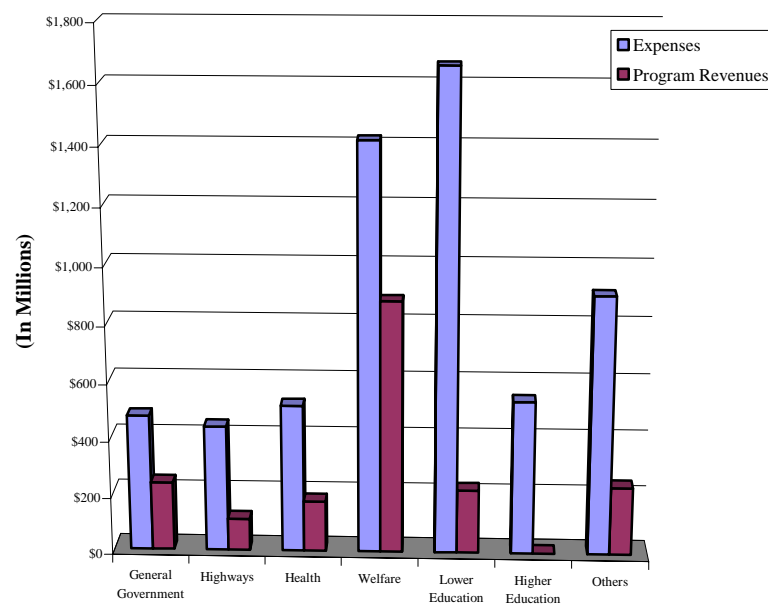
The State's net assets decreased by \$533,127 during the current fiscal year. This decrease is explained in the governmental and business-type activities discussion below, and is primarily a result of an increase in expenses despite an increase in revenues.

### *Governmental Activities*

Governmental activities decreased the State's net assets by \$555,162. Key elements of this decrease are a result of higher expenses for higher and lower education, welfare, highways, health, and interest expense.

A comparison of the cost of services by function of the State's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State:

**Expenses and Program Revenues – Governmental Activities**  
**Fiscal Year Ended June 30, 2003**



# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2003

	<b>Governmental Activities</b>	
	<b>2003</b>	<b>2002</b>
Expenses net of program revenues:		
General government	\$ 236,851	\$ 293,343
Public safety	200,780	194,571
Highways	328,737	209,433
Conservation of natural resources	(8,366)	(28,289)
Health	338,728	315,281
Welfare	537,183	518,675
Lower education	1,437,936	1,295,346
Higher education	537,709	455,037
Other education	37,917	85,605
Culture and recreation	61,934	59,269
Urban development and housing	34,252	(8,748)
Economic development and assistance	120,586	154,334
Interest expense	200,864	142,118
Total governmental activities program expenses net of revenues	<u>4,065,111</u>	<u>3,685,975</u>
General revenues:		
Taxes	3,441,398	3,285,733
Interest and investment income	60,724	70,911
Other	8,344	93,718
Transfers	(517)	(46,810)
Total general revenues and transfers	<u>3,509,949</u>	<u>3,403,552</u>
Decrease in governmental activities net assets	\$ <u>555,162</u>	\$ <u>282,423</u>

The increase of \$119,304 or 57.0% for highways was mainly comprised of an increase in depreciation expense of \$17,500, and decreases in the capitalization of capital project costs of \$57,900 and operating grants and contributions of \$21,300 from the prior fiscal year.

The increase of \$142,590 or 11.0% for lower education from the previous fiscal year was primarily due to an increase in expenses of \$85,300 for school based budgeting and comprehensive school support services and \$92,100 related to repairs and maintenance costs. These increased expenses were offset by an increase of \$27,000 in operating grants and contributions.

The increase of \$82,672 or 18.2% for higher education resulted mainly due to a decrease in capitalization of capital project costs from the previous fiscal year.

The general tax revenues increased by \$155,665 or 4.7% from the previous fiscal year. The increase was primarily due to increases in general excise taxes of \$123,300 and public service companies taxes of \$20,700, which were offset by decreases in individual and corporate income taxes of \$32,900.

STATE OF HAWAII

Management’s Discussion and Analysis

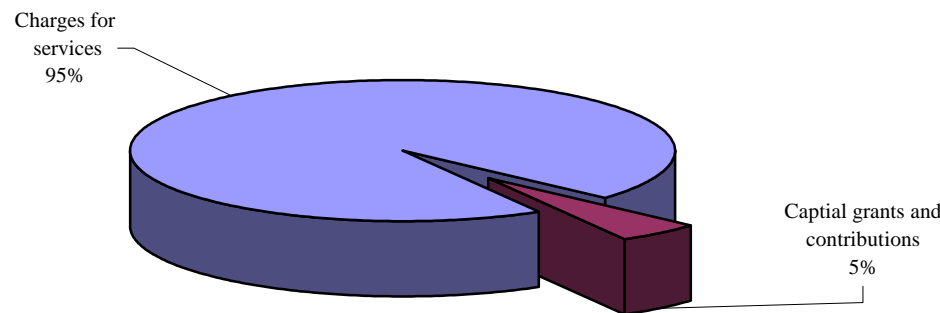
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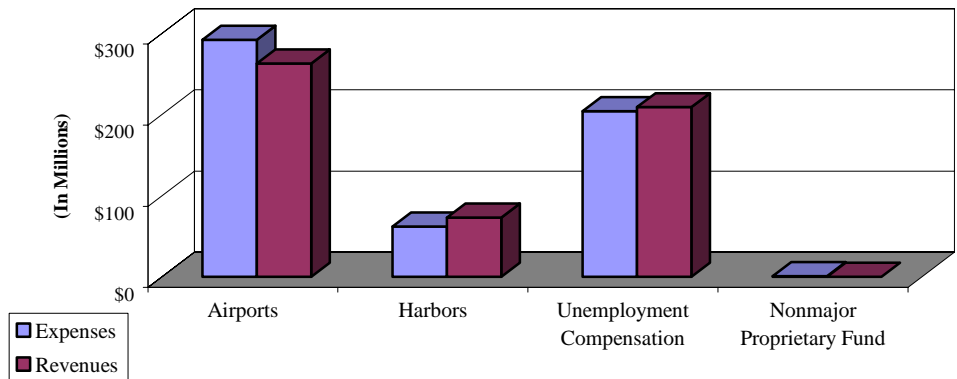
*Business-Type Activities*

The following charts depict revenues and expenses of the business-type activities for the fiscal year:

**Program Revenues By Source – Business-Type Activities**  
**Fiscal Year Ended June 30, 2003**



**Expenses and Program Revenues – Business-Type Activities**  
**Fiscal Year Ended June 30, 2003**



# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2003

Business-type activities increased the State's net assets by \$22,035 or 0.95%, during the current fiscal year. Key elements of this increase are as follows.

- Airport's operating revenues increased \$51.2 million or 28% over the prior fiscal year from \$182.9 million to \$234.1 million. World events such as the Iraq war and Asian travelers' concern over the spread of SARS directly increased Airports' expenses by \$18.1 million to \$244.1 million and also severely impacted the DFS Group, L.P.'s (DFS) ability to continue to pay the minimum annual rent guarantee, which resulted in an operating loss of \$10.0 million.
- Fiscal 2002 became a financial anomaly when the State Legislature enacted and the Governor signed Act 15, Third Special Session Laws of Hawaii (SLH) of 2001 which granted \$47 million in relief to airport concessionaires and airlines. The minimum annual guarantee rents for qualified concessionaires were waived from September 11, 2001 to April 30, 2002, and reinstated on May 1, 2002, upon the expiration of Act 15. Airport landing fees and Airports system support charges were waived from September 18, 2001 to March 31, 2002, and reinstated on April 1, 2002. If Act 15 relief were included with fiscal 2002 revenues, then fiscal 2002 would have increased reported revenues of \$182.9 million.

Key elements of the State's business-type activities for the fiscal year ended June 30, 2003 and 2002, are as follows:

	Program Revenues									
	Operating/Capital						Expenses Net of Program Revenues			
	Charges for Services		Grants and Contributions		Total					
	2003	2002	2003	2002	2003	2002				
Airports	\$ 236,970	\$ 182,895	\$ 25,624	\$ 22,986	\$ 262,594	\$ 205,881	\$ 291,871	\$ 279,654	\$ 29,277	\$ 73,773
Harbors	70,103	66,166	2,542	1,113	72,645	67,279	61,448	46,315	(11,197)	(20,964)
Unemployment compensation	209,450	166,197	—	—	209,450	166,197	204,344	213,682	(5,106)	47,485
Nonmajor proprietary fund	—	969	—	—	—	969	789	788	789	(181)
Total	\$ 516,523	\$ 416,227	\$ 28,166	\$ 24,099	\$ 544,689	\$ 440,326	\$ 558,452	\$ 540,439	\$ 13,763	\$ 100,113

### Financial Analysis of the State's Individual Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### *Governmental Funds*

The focus of the State's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2003

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As of the end of the current fiscal year, the State's Governmental Funds reported combined ending fund balances of \$1,646,596, a decrease of \$304,270 in comparison with the prior fiscal year. Approximately \$33,017 or 2.01% of this total amount constitutes unreserved fund balance, which is available for spending at the State's discretion in the coming fiscal year. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period or are legally segregated for a specific future use (\$1,232,039), (2) for notes and loan receivable, advances and investments (\$252,616), (3) for federal aid highway projects encumbrances (\$95,294), or (4) for a variety of other restricted purposes (\$33,630).

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$290,466, a decrease of 16.17% from the prior fiscal year, and the reserved fund balance was \$212,362, a decrease of 7.65% from the prior fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 8.78% of total General Fund expenditures, a decrease of 2.07% from the prior fiscal year, while total fund balance represents 15.20% of that same amount, an increase of 2.80% from the prior fiscal year.

The fund balance of the State's General Fund decreased by \$75,901 during the current fiscal year, which is 66.52% less than the prior fiscal year's decrease of \$226,691, and was due primarily to an increase in tax revenues and a slight increase in expenditures for higher and lower education, health, and public safety. The fund balance of the State's Capital Projects Fund decreased by \$215,766 during the current fiscal year. The decrease was due primarily to a \$250,000 reduction in the issuance of general obligation bonds for financing public improvement projects and an increase of \$120,000 in repairs and maintenance expenditures for lower education. The fund balance of the State's other nonmajor Governmental Funds decreased by \$12,603 during the current fiscal year. The decrease was due to an increase of transfers from the nonmajor Special Revenue Funds to the General Fund.

### ***Proprietary Funds***

The State's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the current fiscal year, Airports had an increase in net assets of \$1,498, Harbors had an increase in net assets of \$15,533 and the Unemployment Compensation Fund had an increase in net assets of \$5,106. Other factors concerning the finances of Airports, Harbors, and the Unemployment Compensation Fund have already been addressed in the discussion of the State's business-type activities.

### ***Fiduciary Funds***

The State maintains Fiduciary Funds for the assets of the Hawaiian Home Lands Trust. As of the end of the current fiscal year, the net assets of the Hawaiian Home Lands Trust totaled \$137,213, representing an increase of \$23,399 in total net assets since June 30, 2002.



## Management's Discussion and Analysis

June 30, 2003

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### *General Fund Budgetary Highlights*

The General Fund revenue shortfall was \$63,643 or 1.76% less than the final budget. The shortfall was primarily attributed to lower net income taxes of \$133,029.

The General Fund expenditure budget increased by \$291,937 from the original to the final budget. Most of the increase is due to the original budget consisting only of the appropriations contained in the general appropriation acts of the executive and judicial branches. Budgets that are not part of this original budget include: \$221,700 in employees' salary adjustments; \$14,200 for the State Legislature; \$14,100 for claims and settlements against the State; \$22,700 for an emergency appropriation to the Department of Human Services; and \$5,500 for debt service payments. The difference between the final budget and actual expenditures on a budgetary basis was \$134,443. The positive variance in lower education resulted when the Department of Education carried over \$19,000 of unencumbered appropriations into the next fiscal year. By law, the Department of Education is allowed to carry over up to 5% of its unencumbered appropriations in the School-Based Budgeting and Comprehensive School Support Services programs. The positive variance in general government is primarily attributed to \$16,900 of amounts appropriated for collective bargaining cost items, \$5,500 of the amount appropriated for debt service payments, \$9,000 of appropriations made to the State Legislature that can be carried over to the next fiscal year, \$17,300 appropriated for welfare programs, and \$18,200 appropriated for health services.

### **Capital Asset and Debt Administration**

#### *Capital Assets*

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2003 amounted to \$11,203,015 (net of accumulated depreciation of \$5,358,189). This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2003, included the following:

- \$3.3 million to repair Ka'ewai Elementary School.
- \$3.6 million for improvements at Lihue Airport.
- \$120.0 million for various capital improvement projects and the repairs and maintenance of public school facilities throughout the State.

Additional information on the State's capital assets can be found in note 4 of the notes to basic financial statements.

# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2003

### Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of \$4,988,109. Of this amount, \$3,634,963 comprises debt backed by the full faith and credit of the State and \$1,353,146 (i.e., revenue bonds) is revenue bonded debt which is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

#### Long-Term Debt

June 30, 2003 and 2002

(Amount in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
General obligation bonds	\$ 3,634,738	\$ 3,568,001	\$ 225	\$ 955	\$ 3,634,963	\$ 3,568,956
Revenue bonds	288,470	297,995	1,064,676	1,099,098	1,353,146	1,397,093
Total	<u>\$ 3,923,208</u>	<u>\$ 3,865,996</u>	<u>\$ 1,064,901</u>	<u>\$ 1,100,053</u>	<u>\$ 4,988,109</u>	<u>\$ 4,966,049</u>

The State's total long-term debt increased by \$22,060 (0.44%) during the current fiscal year. The key factor in this increase was the issuance of \$300,000 in general obligation bonds for financing public improvement projects. During the current fiscal year, the Department of Transportation – Highways Division (Highways) also issued \$44,940 of revenue bonds.

The State's general obligation bonds have been rated by Moody's Investors Service (Aaa), by Standard and Poor's Corporation (AAA) and by Fitch IBCA, Inc (AAA). The payment of the principal and interest on the general obligation bonds are guaranteed under an insurance policy. Highways' revenue bonds have been rated by Moody's Investors Service (insured-Aaa, uninsured-Aa3), by Standard and Poor's Corporation (insured-AAA, uninsured-AA) and by Fitch IBCA, Inc. (insured-AAA, uninsured-AA-).

The State Constitution limits the amount of general obligation bonds which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2003 was \$136,344.

Additional information on the State's long-term debt can be found in notes 5, 6, and 7 of the notes to basic financial statements.

# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2003

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### **Economic Factors and Next Year's Budget**

The unemployment rate for the State is currently 3.8%, which is a decrease of 0.6% from a year ago. This is the lowest unemployment rate since 1993.

General Fund tax revenues increased 1.7% for the first eight months of 2003. General excise and use tax collections, which is the largest source of revenue and a good measure of economic activity, showed a 8.6% increase for the same period. Additionally, transient accommodations tax revenue increased by 6.7%, showing the positive impact of overall visitor demand.

Inflation in Hawaii is increasing but still remains relatively low. Between the first half of 2002 and the first half of 2003, the Honolulu Consumer Price Index (CPI) for urban consumers increased by 1.7%. In comparison, the CPI for the U.S. increased at a 2.5% annual rate over the same period.

The Council of Revenues in September 2003 estimated that the General Fund tax growth rate would be 6.2% in fiscal 2004 and 6.9% in fiscal 2005. Based on these projections, the Governor did not extend or impose budget restrictions for fiscal 2004. While budget allocation restrictions were lifted, strict controls will be maintained over filling of nonessential positions and consultant and personal services contracts greater than \$25 will continue to require the Governor's approval.

### **Requests for Information**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Department of Accounting and General Services, P.O. Box 119, Honolulu, Hawaii 96810-0119. General information about the State can be found at the State's website, <http://www.state.hi.us>.

## ***BASIC FINANCIAL STATEMENTS***

# STATE OF HAWAII

## Statement of Net Assets

June 30, 2003

(Amounts in thousands)

<u>ASSETS</u>	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
Cash and short-term investments (note 3)	\$ 428,564	\$ 1,010,393	\$ 1,438,957	\$ 353,362
Receivables:				
Taxes	288,900	46,000	334,900	—
Accounts and accrued interest, net	—	40,253	40,253	145,042
Notes, loans, and mortgages, net	252,602	—	252,602	101,911
Federal government	23,700	7,004	30,704	8,215
Other, net	6,669	1,396	8,065	4,617
Internal balances (note 8)	1,262	(1,262)	—	—
Due from Component Units (note 8)	20,000	—	20,000	—
Due from Primary Government (note 8)	—	—	—	5,769
Investments (note 3)	812,010	—	812,010	594,438
Inventories:				
Developments in progress and dwelling units	—	—	—	95,757
Materials and supplies	—	240	240	20,858
Net investment in financing lease	—	—	—	17,739
Restricted assets (notes 3, 6, and 10)	—	366,738	366,738	766,916
Other assets:				
Prepaid expenses	—	24	24	18,636
Bond issue costs	6,100	8,308	14,408	5,968
Other	1	—	1	98
Capital assets (notes 4, 5, 6, and 10):				
Land and land improvements	2,326,843	539,836	2,866,679	79,221
Infrastructure	7,522,895	—	7,522,895	28,318
Construction in progress	784,391	142,476	926,867	176,695
Buildings, improvements, and equipment	2,655,824	2,588,939	5,244,763	2,099,516
Accumulated depreciation	(4,156,811)	(1,201,378)	(5,358,189)	(1,049,313)
Total Capital Assets, Net	9,133,142	2,069,873	11,203,015	1,334,437
Total Assets	\$ 10,972,950	\$ 3,548,967	\$ 14,521,917	\$ 3,473,763

See accompanying notes to basic financial statements.

<b>LIABILITIES</b>	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	
Vouchers and contracts payable	\$ 102,732	\$ 55,119	\$ 157,851	\$ 87,628
Other accrued liabilities	62,004	30,663	92,667	104,080
Prepaid airport use charge fund (note 10)	—	9	9	—
Due to Component Units (note 8)	5,769	—	5,769	—
Due to Primary Government (note 8)	—	—	—	20,000
Due to federal government	—	—	—	1,896
Deferred revenue	—	237	237	23,997
Estimated future costs of land sold	—	—	—	38,625
Other	70,000	—	70,000	19,928
Long-term liabilities				
Due within one year:				
Payable from restricted assets:				
Contracts payable, accrued interest, and other	—	47,260	47,260	—
Matured bonds and interest payable	68,907	311	69,218	—
Revenue bonds payable, net (notes 6 and 7)	—	35,872	35,872	—
General obligation bonds payable (notes 5 and 7)	—	19	19	—
General obligation bonds payable (notes 5 and 7)	178,020	9	178,029	2,719
Notes, mortgages, and installment contracts payable	—	—	—	1,357
Accrued vacation and retirement benefits payable (note 7)	51,519	4,433	55,952	16,506
Revenue bonds payable, net (notes 6 and 7)	11,790	—	11,790	13,187
Reserve for losses and loss adjustment costs (notes 7 and 13)	72,000	859	72,859	23,491
Claims and judgments payable (notes 7 and 12)	30,000	—	30,000	—
Capital lease obligations (notes 7 and 10)	3,020	—	3,020	8,293
Deferred commitment fees	—	—	—	611
Due in more than one year:				
General obligation bonds payable (notes 5 and 7)	3,456,718	197	3,456,915	10,686
Notes, mortgages, and installment contracts payable	—	—	—	24,333
Accrued vacation and retirement benefits payable (note 7)	104,350	4,884	109,234	49,667
Revenue bonds payable, net (notes 6 and 7)	276,680	1,028,804	1,305,484	935,406
Reserve for losses and loss adjustment costs (notes 7 and 13)	30,100	3,241	33,341	8,338
Claims and judgments payable (notes 7 and 12)	221,500	—	221,500	—
Capital lease obligations (notes 7 and 10)	64,485	—	64,485	39,813
Deferred commitment fees	—	—	—	5,142
Total Liabilities	4,809,594	1,211,917	6,021,511	1,435,703
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	5,140,822	1,104,914	6,245,736	951,700
Restricted for:				
Capital maintenance projects	231,414	—	231,414	—
Health and welfare	356,264	—	356,264	—
Other purposes	527,794	—	527,794	—
Bond requirements and other	—	167,155	167,155	1,054,198
Unrestricted	(92,938)	1,064,981	972,043	32,162
Total Net Assets	\$ 6,163,356	\$ 2,337,050	\$ 8,500,406	\$ 2,038,060

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# STATE OF HAWAII

## Statement of Activities

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General government	\$ 475,517	\$ 67,746	\$ 170,920	\$ —	\$ (236,851)	\$ —	\$ (236,851)	
Public safety	252,741	24,018	27,943	—	(200,780)	—	(200,780)	
Highways	439,923	2,049	39,760	69,377	(328,737)	—	(328,737)	
Conservation of natural resources	48,918	23,207	34,077	—	8,366	—	8,366	
Health	515,492	30,242	146,522	—	(338,728)	—	(338,728)	
Welfare	1,418,224	558	880,483	—	(537,183)	—	(537,183)	
Lower education	1,660,595	31,377	191,282	—	(1,437,936)	—	(1,437,936)	
Higher education	537,709	—	—	—	(537,709)	—	(537,709)	
Other education	38,161	—	244	—	(37,917)	—	(37,917)	
Culture and recreation	71,738	7,112	2,692	—	(61,934)	—	(61,934)	
Urban redevelopment and housing	42,713	4	8,457	—	(34,252)	—	(34,252)	
Economic development and assistance	231,605	26,680	84,339	—	(120,586)	—	(120,586)	
Interest expense	200,864	—	—	—	(200,864)	—	(200,864)	
Total Governmental Activities	5,934,200	212,993	1,586,719	69,377	(4,065,111)	—	(4,065,111)	
Business-Type Activities:								
Airports	291,871	236,970	—	25,624	—	(29,277)	(29,277)	
Harbors	61,448	70,103	—	2,542	—	11,197	11,197	
Unemployment compensation	204,344	209,450	—	—	—	5,106	5,106	
Nonmajor proprietary fund	789	—	—	—	—	(789)	(789)	
Total Business-Type Activities	558,452	516,523	—	28,166	—	(13,763)	(13,763)	
Total Primary Government	\$ 6,492,652	\$ 729,516	\$ 1,586,719	\$ 97,543	(4,065,111)	(13,763)	(4,078,874)	
Component Units:								
University of Hawaii	\$ 922,626	\$ 184,120	\$ 302,031	\$ 44,632				\$ (391,843)
Housing and Community Development Corporation of Hawaii	162,625	73,081	113,750	24,142				48,348
Hawaii Health Systems Corporation	333,443	288,410	2,448	6,228				(36,357)
Hawaii Hurricane Relief Fund	336	109						(227)
Total Component Units	\$ 1,419,030	\$ 545,720	\$ 418,229	\$ 75,002				(380,079)
General Revenues:								
Taxes:								
General excise tax					1,777,299	—	1,777,299	—
Net income tax – corporations and individuals					1,057,088	—	1,057,088	—
Public service companies tax					114,115	—	114,115	—
Transient accommodations tax					92,018	—	92,018	—
Tobacco and liquor taxes					113,483	—	113,483	—
Liquid fuel tax					77,174	—	77,174	—
Tax on premiums of insurance companies					74,335	—	74,335	—
Vehicle weight and registration tax					46,259	—	46,259	—
Rental motor/tour vehicle surcharge					39,472	—	39,472	—
Others					50,155	—	50,155	—
Interest and investment income					60,724	33,695	94,419	19,051
Payments from the State					—	—	—	444,749
Other					8,344	1,416	9,760	(442)
Transfers (note 9)					(517)	687	170	—
Total General Revenues and Transfers					3,509,949	35,798	3,545,747	463,358
Change in Net Assets					(555,162)	22,035	(533,127)	83,279
Net Assets – Beginning					6,718,518	2,315,015	9,033,533	1,954,781
Net Assets – Ending					\$ 6,163,356	\$ 2,337,050	\$ 8,500,406	\$ 2,038,060

See accompanying notes to basic financial statements.



# STATE OF HAWAII

## Governmental Funds Balance Sheet

June 30, 2003

(Amounts in thousands)

<b><u>ASSETS</u></b>	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
Cash and short-term investments (note 3)	\$ 183,955	\$ —	\$ 244,609	\$ 428,564
Receivables:				
Taxes	283,300	—	5,600	288,900
Notes and loans, net	386	—	252,216	252,602
Federal government	—	—	23,700	23,700
Other	73	188	6,408	6,669
Due from other funds (note 8)	113,600	—	148	113,748
Due from Proprietary Funds (note 8)	—	1,262	—	1,262
Due from Component Units (note 8)	20,000	—	—	20,000
Investments (note 3)	46,568	65,435	700,007	812,010
Other assets	—	—	1	1
Total Assets	<u>\$ 647,882</u>	<u>\$ 66,885</u>	<u>\$ 1,232,689</u>	<u>\$ 1,947,456</u>
<b><u>LIABILITIES AND FUND BALANCES (DEFICIT)</u></b>				
<b>Liabilities:</b>				
Vouchers and contracts payable	\$ 69,116	\$ 8,661	\$ 24,955	\$ 102,732
Other accrued liabilities	55,021	—	6,983	62,004
Due to other funds (note 8)	148	89,900	23,700	113,748
Due to Component Units (note 8)	5,769	—	—	5,769
Payable from restricted assets – matured bonds and interest payable	—	—	1,607	1,607
Deferred revenue	15,000	—	—	15,000
Total Liabilities	<u>145,054</u>	<u>98,561</u>	<u>57,245</u>	<u>300,860</u>
<b>Fund Balances (Deficit):</b>				
Reserved for:				
Continuing appropriations	211,962	701,902	318,175	1,232,039
Receivables and advances	400	—	252,216	252,616
Federal aid highway projects encumbrances	—	95,294	—	95,294
Bond redemption and other	—	—	33,630	33,630
Unreserved for major funds:				
Designated for future expenditures	23,048	—	—	23,048
Undesignated	267,418	(828,872)	—	(561,454)
Unreserved for nonmajor Special Revenue Funds:				
Designated for future expenditures	—	—	219,374	219,374
Undesignated	—	—	352,049	352,049
Total Fund Balances (Deficit)	<u>502,828</u>	<u>(31,676)</u>	<u>1,175,444</u>	<u>1,646,596</u>
Total Liabilities and Fund Balances (Deficit)	<u>\$ 647,882</u>	<u>\$ 66,885</u>	<u>\$ 1,232,689</u>	<u>\$ 1,947,456</u>

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2003

(Amounts in thousands)

Total Fund Balance – Governmental Funds	\$	1,646,596
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land and land improvements	\$	2,326,843
Infrastructure		7,522,895
Construction in progress		784,391
Buildings, improvements, and equipment		2,655,824
Accumulated depreciation		(4,156,811)
		<u>9,133,142</u>
Accrued interest and other payables are not recognized in governmental funds.		(137,300)
Other long-term assets are not available to pay for current-period expenditures and are deferred, or not recognized, in governmental funds, such as deferred tax revenue.		21,100
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General obligation bonds payable	(3,634,738)	
Accrued vacation payable	(155,869)	
Revenue bonds payable	(288,470)	
Reserve for losses and loss adjustment costs	(102,100)	
Claims and judgments payable	(251,500)	
Capital lease obligations	(67,505)	
		<u>(4,500,182)</u>
Net Assets of Governmental Activities	\$	<u><u>6,163,356</u></u>

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## Governmental Funds

### Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes:				
General excise tax	\$ 1,771,629	\$ —	\$ 8,570	\$ 1,780,199
Net income tax – corporations and individuals	1,050,688	—	—	1,050,688
Public service companies tax	114,115	—	—	114,115
Transient accommodations tax	766	—	91,252	92,018
Tobacco and liquor taxes	112,459	—	1,024	113,483
Liquid fuel tax	—	—	77,174	77,174
Tax on premiums of insurance companies	73,240	—	1,095	74,335
Vehicle weight and registration tax	—	—	46,259	46,259
Rental motor/tour vehicle surcharge	—	—	39,472	39,472
Others	42,883	—	7,282	50,165
Total Taxes	3,165,780	—	272,128	3,437,908
Interest and investment income	24,802	—	35,922	60,724
Charges for current services	59,982	—	154,998	214,980
Intergovernmental	35,741	—	1,326,748	1,362,489
Rentals	9,250	—	18,604	27,854
Fines, forfeitures, and penalties	17,929	—	6,505	24,434
Licenses and fees	1,205	—	25,850	27,055
Revenues from private sources	3,857	—	44,682	48,539
Other	95,964	—	69,761	165,725
Total Revenues	3,414,510	—	1,955,198	5,369,708
<b>Expenditures:</b>				
Current:				
General government	332,332	49,569	47,547	429,448
Public safety	187,167	8,734	60,839	256,740
Highways	—	118,466	136,182	254,648
Conservation of natural resources	29,686	2,746	33,355	65,787
Health	361,804	10,230	140,830	512,864
Welfare	528,519	186	889,351	1,418,056
Lower education	1,324,719	231,340	188,566	1,744,625
Higher education	462,453	75,256	—	537,709
Other education	3,795	23,306	11,059	38,160
Culture and recreation	35,250	7,178	28,121	70,549
Urban redevelopment and housing	8,347	56	8,862	17,265
Economic development and assistance	34,674	21,908	174,820	231,402
Debt service	—	—	394,323	394,323
Total Expenditures	3,308,746	548,975	2,113,855	5,971,576
Excess (Deficiency) of Revenues over Expenditures	105,764	(548,975)	(158,657)	(601,868)
<b>Other Financing Sources (Uses):</b>				
Proceeds from general obligation and revenue bonds (notes 5, 6 and 7)	19,771	300,000	47,791	367,562
Payments for general obligation and revenue bonds (notes 5, 6, and 7)	—	—	(47,791)	(47,791)
Transfers in (note 9)	149,485	69,009	354,388	572,882
Transfers out (note 9)	(349,105)	(35,800)	(218,494)	(603,399)
Other	(1,816)	—	10,160	8,344
Total Other Financing Sources (Uses)	(181,665)	333,209	146,054	297,598
Net Change in Fund Balances	(75,901)	(215,766)	(12,603)	(304,270)
<b>Fund Balances – Beginning</b>	578,729	184,090	1,188,047	1,950,866
<b>Fund Balances (Deficit) – Ending</b>	\$ 502,828	\$ (31,676)	\$ 1,175,444	\$ 1,646,596

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) to the Statement of Activities

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

Total Net Change in Fund Balances (Deficit) – Governmental Funds		\$	(304,270)
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays are reported as expenditures in governmental funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:			
Capital outlay	\$	252,633	
Depreciation expense		(345,740)	
Excess of capital outlay over depreciation expense			(93,107)
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from general obligation and revenue bonds issued.			(367,562)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:			
Bond principal retirement		310,350	
Capital lease payments		2,895	
Claims and judgment payments		30,000	
Total long-term debt repayment			343,245
Revenue timing differences result in greater revenue in the government-wide financial statements.			3,500
Accrued interest and other payables are not recognized in governmental funds.			(69,100)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:			
Loss on sale of capital assets		(43,882)	
Change in claims and judgements payable		(15,900)	
Change in accrued vacation payable		(4,386)	
Change in reserve for losses and loss adjustment costs		(3,700)	
			(67,868)
Change in Net Assets of Governmental Activities	\$		<u>(555,162)</u>

See accompanying notes to basic financial statements.

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# STATE OF HAWAII

## General Fund

### Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
<b>Revenues:</b>				
Taxes:				
General excise tax	\$ 1,772,688	\$ 1,746,507	\$ 1,784,129	\$ 37,622
Net income tax:				
Corporations	73,148	59,165	8,262	(50,903)
Individuals	1,127,399	1,119,952	1,037,826	(82,126)
Inheritance and estate tax	15,120	13,284	15,524	2,240
Liquor permits and tax	36,383	40,996	41,186	190
Public service companies tax	104,870	104,839	114,115	9,276
Tobacco tax	64,387	82,230	71,273	(10,957)
Tax on premiums of insurance companies	64,500	67,700	73,240	5,540
Franchise tax (banks and other financial institutions)	17,089	8,760	20,842	12,082
Transient accommodations tax	30,917	4,400	1,466	(2,934)
Other taxes, primarily conveyances tax	5,760	6,260	6,517	257
Total Taxes	3,312,261	3,254,093	3,174,380	(79,713)
Non-taxes:				
Interest and investment income	26,043	26,252	25,453	(799)
Charges for current services	104,496	122,668	131,323	8,655
Intergovernmental	4,206	6,427	6,708	281
Rentals	13,629	9,765	9,250	(515)
Fines, forfeitures, and penalties	17,986	18,276	17,929	(347)
Licenses and fees	915	946	1,206	260
Revenues from private sources	1,161	1,312	3,857	2,545
Accrued interest on general obligation bonds sold	700	—	—	—
Debt service requirements	29,853	49,224	46,551	(2,673)
Other	86,223	119,879	128,542	8,663
Total Non-taxes	285,212	354,749	370,819	16,070
Total Revenues	3,597,473	3,608,842	3,545,199	(63,643)
<b>Expenditures:</b>				
General government	591,143	659,680	615,824	43,856
Public safety	163,332	174,948	170,777	4,171
Conservation of natural resources	23,517	26,317	24,625	1,692
Health	357,698	345,363	318,263	27,100
Hospitals	14,000	26,420	26,420	—
Welfare	533,420	566,543	539,913	26,630
Lower education	1,323,753	1,437,349	1,413,398	23,951
Higher education	436,749	462,707	462,664	43
Other education	3,815	3,950	3,853	97
Culture and recreation	32,423	36,188	34,627	1,561
Urban redevelopment and housing	1,196	1,345	1,232	113
Economic development and assistance	26,860	29,643	28,510	1,133
Housing	7,468	7,644	6,976	668
Social security and pension contributions	129,624	140,714	137,714	3,000
Other	620	18,744	18,316	428
Total Expenditures	3,645,618	3,937,555	3,803,112	134,443
Excess (Deficiency) of Revenues over Expenditures	(48,145)	(328,713)	(257,913)	(198,086)
<b>Other Financing Sources:</b>				
Transfers	9,428	176,121	243,666	67,545
Excess (Deficiency) of Revenues and Other Sources over Expenditures	\$ (38,717)	\$ (152,592)	\$ (14,247)	\$ (130,541)

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## Proprietary Funds Statement of Net Assets

June 30, 2003

(Amounts in thousands)

<u>ASSETS</u>	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Fund</u>	<u>Total Proprietary Funds</u>
<b>Current Assets:</b>					
Cash and short-term investments (note 3)	\$ 572,890	\$ 90,878	\$ 313,690	\$ 32,935	\$ 1,010,393
Receivables:					
Taxes	—	—	46,000	—	46,000
Accounts and accrued interest (net of allowance for doubtful accounts of \$24,031)	33,018	7,235	—	—	40,253
Federal government	5,259	1,745	—	—	7,004
Other	1,087	309	—	—	1,396
Inventory of materials and supplies	202	38	—	—	240
Prepaid expenses and other assets	—	24	—	—	24
Total Current Assets	<u>612,456</u>	<u>100,229</u>	<u>359,690</u>	<u>32,935</u>	<u>1,105,310</u>
<b>Restricted Assets</b> (notes 3 and 6):					
Cash and short-term investments	161,911	59,657	—	—	221,568
Investments – repurchase agreements	85,284	—	—	—	85,284
Net direct financing leases (note 10)	41,118	18,768	—	—	59,886
Total Restricted Assets	<u>288,313</u>	<u>78,425</u>	<u>—</u>	<u>—</u>	<u>366,738</u>
<b>Noncurrent Assets:</b>					
Capital assets (notes 4 and 6)					
Land and land improvements	301,141	238,695	—	—	539,836
Construction in progress	85,643	56,833	—	—	142,476
Buildings and improvements	1,977,918	421,902	—	—	2,399,820
Equipment	178,243	10,876	—	—	189,119
Less accumulated depreciation	<u>(1,057,277)</u>	<u>(144,101)</u>	<u>—</u>	<u>—</u>	<u>(1,201,378)</u>
Net Capital Assets	1,485,668	584,205	—	—	2,069,873
Bond issue costs	5,939	2,369	—	—	8,308
Total Noncurrent Assets	<u>1,491,607</u>	<u>586,574</u>	<u>—</u>	<u>—</u>	<u>2,078,181</u>
Total Assets	<u>\$ 2,392,376</u>	<u>\$ 765,228</u>	<u>\$ 359,690</u>	<u>\$ 32,935</u>	<u>\$ 3,550,229</u>

See accompanying notes to basic financial statements.

	<b>LIABILITIES</b>				
	<b>Airports</b>	<b>Harbors</b>	<b>Unemployment Compensation</b>	<b>Nonmajor Proprietary Fund</b>	<b>Total Proprietary Funds</b>
<b>Current Liabilities:</b>					
Vouchers and contracts payable	\$ 20,207	\$ 1,579	\$ 26,700	\$ 6,633	\$ 55,119
Other accrued liabilities	4,361	—	—	26,302	30,663
Due to Capital Projects Fund (note 8)	—	1,262	—	—	1,262
Prepaid airport use charge fund	9	—	—	—	9
Deferred revenue	237	—	—	—	237
General obligation bonds payable, current portion (notes 5 and 7)	9	—	—	—	9
Accrued vacation, current portion (note 7)	2,426	2,007	—	—	4,433
Reserve for losses and loss adjustment costs (note 7)	859	—	—	—	859
Total Current Liabilities	28,108	4,848	26,700	32,935	92,591
<b>Liabilities Payable from Restricted Assets:</b>					
Contracts payable, accrued interest, and other	27,285	19,975	—	—	47,260
Matured bonds and interest payable	—	311	—	—	311
Revenue bonds payable (notes 6 and 7)	20,400	15,472	—	—	35,872
General obligation bonds payable (notes 5 and 7)	—	19	—	—	19
Total Liabilities Payable from Restricted Assets	47,685	35,777	—	—	83,462
<b>Long-Term Liabilities:</b>					
General obligation bonds payable (notes 5 and 7)	66	131	—	—	197
Accrued vacation (note 7)	4,884	—	—	—	4,884
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding) (notes 6 and 7)	825,020	203,784	—	—	1,028,804
Reserve for losses and loss adjustment costs (note 7)	3,241	—	—	—	3,241
Total Long-Term Liabilities	833,211	203,915	—	—	1,037,126
Total Liabilities	909,004	244,540	26,700	32,935	1,213,179
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	740,114	364,800	—	—	1,104,914
Restricted for bond requirements and other	167,155	—	—	—	167,155
Unrestricted	576,103	155,888	332,990	—	1,064,981
Total Net Assets	\$ 1,483,372	\$ 520,688	\$ 332,990	\$ —	\$ 2,337,050



# STATE OF HAWAII

## Proprietary Funds

### Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Fund</u>	<u>Total Proprietary Funds</u>
<b>Operating Revenues</b> (note 10):					
Concession fees	\$ 131,878	\$ —	\$ —	\$ —	\$ 131,878
Unemployment compensation tax	—	—	209,450	—	209,450
Airport use charges	34,580	—	—	—	34,580
Rentals	62,361	24,195	—	—	86,556
Services and others	896	45,298	—	—	46,194
Other	4,401	610	—	—	5,011
Total Operating Revenues	<u>234,116</u>	<u>70,103</u>	<u>209,450</u>	<u>—</u>	<u>513,669</u>
<b>Operating Expenses:</b>					
Personal services	93,317	10,630	—	508	104,455
Depreciation (note 4)	78,205	13,367	—	—	91,572
Repairs and maintenance	22,219	6,350	—	—	28,569
Airports operations	37,979	—	—	—	37,979
Harbors operations	—	14,084	—	—	14,084
Fireboat operations	—	1,308	—	—	1,308
General administration	12,095	4,747	—	—	16,842
Unemployment compensation	—	—	204,344	—	204,344
Other	284	—	—	233	517
Total Operating Expenses	<u>244,099</u>	<u>50,486</u>	<u>204,344</u>	<u>741</u>	<u>499,670</u>
Operating Income (Loss)	<u>(9,983)</u>	<u>19,617</u>	<u>5,106</u>	<u>(741)</u>	<u>13,999</u>
<b>Nonoperating Revenues (Expenses):</b>					
Interest income	28,652	5,043	—	—	33,695
Interest expense	(45,864)	(10,962)	—	—	(56,826)
Federal grants	3,088	—	—	—	3,088
Aviation fuel tax	2,854	—	—	—	2,854
Gain (loss) on disposal of capital assets	2,123	(707)	—	—	1,416
Other	(1,908)	—	—	(48)	(1,956)
Total Nonoperating Expenses	<u>(11,055)</u>	<u>(6,626)</u>	<u>—</u>	<u>(48)</u>	<u>(17,729)</u>
Income (Loss) before Capital Contributions and Transfers	<u>(21,038)</u>	<u>12,991</u>	<u>5,106</u>	<u>(789)</u>	<u>(3,730)</u>
Capital contributions	22,536	2,542	—	—	25,078
Transfers (note 9)	—	—	—	687	687
Change in Net Assets	<u>1,498</u>	<u>15,533</u>	<u>5,106</u>	<u>(102)</u>	<u>22,035</u>
<b>Net Assets – Beginning</b>	<u>1,481,874</u>	<u>505,155</u>	<u>327,884</u>	<u>102</u>	<u>2,315,015</u>
<b>Net Assets – Ending</b>	<u>\$ 1,483,372</u>	<u>\$ 520,688</u>	<u>\$ 332,990</u>	<u>\$ —</u>	<u>\$ 2,337,050</u>

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## Proprietary Funds

### Statement of Cash Flows

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Fund</u>	<u>Total Proprietary Funds</u>
<b>Cash Flows from Operating Activities:</b>					
Cash received from customers	\$ 233,343	\$ 69,802	\$ —	\$ —	\$ 303,145
Cash received from taxes	—	—	194,450	—	194,450
Cash received from employee benefits	—	—	—	14,016	14,016
Cash paid to suppliers	(122,146)	(26,729)	—	—	(148,875)
Cash paid to employees	(52,707)	(10,410)	—	—	(63,117)
Cash paid for unemployment compensation	—	—	(177,644)	—	(177,644)
Net Cash Provided by Operating Activities	<u>58,490</u>	<u>32,663</u>	<u>16,806</u>	<u>14,016</u>	<u>121,975</u>
<b>Cash Flows Provided by Noncapital Financing Activity:</b>					
Proceeds from federal operating grants	6,111	—	—	—	6,111
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Acquisition and construction of capital asset	(45,964)	(15,894)	—	—	(61,858)
Proceeds from disposal of capital asset	2,140	—	—	—	2,140
Repayment of general obligation bond principal	(274)	—	—	—	(274)
Repayment of revenue bond principal	(27,185)	(7,907)	—	—	(35,092)
Interest paid on bonds	(48,556)	(10,232)	—	—	(58,788)
Proceeds from transfer in from General Fund	—	—	—	687	687
Proceeds from federal, state, and capital grants	18,340	2,921	—	—	21,261
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(101,499)</u>	<u>(31,112)</u>	<u>—</u>	<u>687</u>	<u>(131,924)</u>
<b>Cash Flows from Investing Activities:</b>					
Purchase of investments	(99,476)	—	—	—	(99,476)
Proceeds from sales and maturities of investments	99,476	—	136,7453	10,531	246,753
Interest from investments	26,379	5,862	—	—	32,241
Net Cash Provided by Investing Activities	<u>26,379</u>	<u>5,862</u>	<u>136,746</u>	<u>10,531</u>	<u>179,518</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(10,519)	7,413	153,552	25,234	175,680
<b>Cash and Cash Equivalents, Including Restricted Amounts – Beginning</b>	<u>745,320</u>	<u>143,122</u>	<u>160,138</u>	<u>7,701</u>	<u>1,056,281</u>
<b>Cash and Cash Equivalents, Including Restricted Amounts – Ending</b>	<u>\$ 734,801</u>	<u>\$ 150,535</u>	<u>\$ 313,690</u>	<u>\$ 32,935</u>	<u>\$ 1,231,961</u>

# STATE OF HAWAII

## Proprietary Funds Statement of Cash Flows (Cont'd)

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Fund</u>	<u>Total Proprietary Funds</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>					
Operating income (loss)	\$ (9,983)	\$ 19,617	\$ 5,106	\$ (741)	\$ 13,999
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Provision for uncollectible accounts	12,793	277	—	—	13,070
Depreciation	78,205	13,367	—	—	91,572
Nonoperating items	2,854	—	—	(48)	2,806
Decrease (increase) in assets					
Receivables	(15,068)	(1,058)	(15,000)	—	(31,126)
Inventory of materials and supplies	17	4	—	—	21
Increase (decrease) in liabilities					
Vouchers and contracts payable	(8,471)	133	26,700	6,586	24,948
Other accrued liabilities	(1,069)	323	—	8,219	7,473
Prepaid airport use charge fund	(460)	—	—	—	(460)
Deferred revenue	(328)	—	—	—	(328)
Net Cash Provided by Operating Activities	<u>\$ 58,490</u>	<u>\$ 32,663</u>	<u>\$ 16,806</u>	<u>\$ 14,016</u>	<u>\$ 121,975</u>
<b>Noncash Investing, Capital, and Financing Activities:</b>					
Amortization of bond discount, bond issue costs, bond premium, and deferred loss on refunding	\$ 4,354	\$ 642	\$ —	\$ —	\$ 4,996
Project costs written off	17	—	—	—	17
Contracts payable accrual for the acquisition of capital assets	8,557	—	—	—	8,557
Capitalized interest	4,209	—	—	—	4,209
Principal payments relating to special facility revenue bonds	820	—	—	—	820
Interest payments relating to special facility revenue bonds	3,003	—	—	—	3,003

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## Fiduciary Funds

### Statement of Fiduciary Net Assets

June 30, 2003

(Amounts in thousands)

	<b><u>ASSETS</u></b>	<b>Private Purpose Trust Fund</b>	<b>Agency Funds</b>
Cash and short-term investments (note 3)		\$ —	\$ 43,306
Receivables – taxes		5	6,700
Investments (note 3):			
Repurchase agreements		—	82,053
Corporate stocks		138,680	100
Liquid asset funds		—	129
U.S. government securities		—	11
Total Investments		<u>138,680</u>	<u>82,293</u>
Total Assets		<u>138,685</u>	<u>132,299</u>
	<b><u>LIABILITIES AND NET ASSETS</u></b>		
Vouchers payable		\$ 72	\$ 2,512
Due to individuals, businesses, and counties		<u>1,400</u>	<u>129,787</u>
Total Liabilities		<u>1,472</u>	<u>\$ 132,299</u>
Net assets – held in trust		<u>\$ 137,213</u>	

See accompanying notes to basic financial statements.

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# STATE OF HAWAII

## Fiduciary Funds

### Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

	<b>Private Purpose Trust Fund</b>
<b>Additions:</b>	
Charges for current services	\$ 245
Rentals	6,221
Interest and investment income	7,819
Transfers from Capital Projects Fund (note 9)	30,000
Other	1,657
Total Additions	45,942
<b>Deductions:</b>	
Personal services	1,996
Other	20,547
Total Deductions	22,543
Change in Net Assets	23,399
<b>Net Assets – Beginning</b>	113,814
<b>Net Assets – Ending</b>	\$ 137,213

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## Component Units Statement of Net Assets

June 30, 2003

(Amounts in thousands)

<b>ASSETS</b>	<b>University of Hawaii</b>	<b>Housing and Community Development Corporation of Hawaii</b>	<b>Hawaii Health Systems Corporation</b>	<b>Hawaii Hurricane Relief Fund</b>	<b>Total Component Units</b>
Cash and short-term investments	\$ 166,026	\$ 167,633	\$ 15,271	\$ 4,432	\$ 353,362
Receivables:					
Accounts and accrued interest (net of allowance for doubtful accounts of \$100,598)	85,324	7,080	50,479	2,159	145,042
Notes, loans, and mortgages (net of allowance for doubtful accounts of \$5)	22,859	79,052	—	—	101,911
Federal government	—	8,215	—	—	8,215
Other	—	4,617	—	—	4,617
Due from Primary Government (note 8)	5,769	—	—	—	5,769
Investments	386,751	16,888	—	190,799	594,438
Inventories:					
Developments in progress and dwelling units	—	95,757	—	—	95,757
Materials and supplies	11,508	723	8,627	—	20,858
Net investment in financing lease	—	17,739	—	—	17,739
Prepaid expenses and other assets	16,083	1,883	768	—	18,734
	<u>694,320</u>	<u>399,587</u>	<u>75,145</u>	<u>197,390</u>	<u>1,366,442</u>
Restricted assets:					
Cash and short-term investments	17,577	72,231	—	—	89,808
Investments:					
U.S. government securities	—	14,645	—	—	14,645
Guaranteed investment contracts	—	936	—	—	936
Mortgage-backed securities	—	412,677	—	—	412,677
Repurchase agreements	—	239,263	—	—	239,263
Deposits, funded reserves, and other	—	7,070	2,517	—	9,587
Total Restricted Assets	<u>17,577</u>	<u>746,822</u>	<u>2,517</u>	<u>—</u>	<u>766,916</u>
Capital assets:					
Land and land improvements	10,216	63,922	5,083	—	79,221
Infrastructure	28,318	—	—	—	28,318
Construction in progress	100,528	53,332	22,835	—	176,695
Buildings, improvements, and equipment	1,192,274	591,309	315,933	—	2,099,516
Less accumulated depreciation	(601,205)	(291,032)	(157,076)	—	(1,049,313)
Total Capital Assets, Net	<u>730,131</u>	<u>417,531</u>	<u>186,775</u>	<u>—</u>	<u>1,334,437</u>
Other assets:					
Bond issue costs	—	5,968	—	—	5,968
Total Assets	<u>\$ 1,442,028</u>	<u>\$ 1,569,908</u>	<u>\$ 264,437</u>	<u>\$ 197,390</u>	<u>\$ 3,473,763</u>

See accompanying notes to basic financial statements.

<hr/>					
		Housing and Community Development Corporation of Hawaii	Hawaii Health Systems Corporation	Hawaii Hurricane Relief Fund	Total Component Units
<b><u>LIABILITIES</u></b>	<b><u>University of Hawaii</u></b>				
<b>Current Liabilities:</b>					
Vouchers and contracts payable	\$ 30,249	\$ 13,177	\$ 44,161	\$ 41	\$ 87,628
Other accrued liabilities	52,259	28,537	21,689	1,595	104,080
Due to Primary Government (note 8)	6,000	—	14,000	—	20,000
Due to federal government	—	1,896	—	—	1,896
Deferred revenue	23,218	779	—	—	23,997
Estimated future costs of land sold	—	38,625	—	—	38,625
General obligation bonds payable (note 5)	2,719	—	—	—	2,719
Notes, mortgages, and installment contracts payable	835	145	377	—	1,357
Accrued vacation and retirement benefits payable	15,666	—	840	—	16,506
Revenue bonds payable	890	12,297	—	—	13,187
Reserve for losses and loss adjustment costs	4,991	—	18,500	—	23,491
Capital lease obligations	360	—	7,933	—	8,293
Deferred commitment fees	—	611	—	—	611
Other liabilities	16,366	2,175	1,387	—	19,928
Total Current Liabilities	153,553	98,242	108,887	1,636	362,318
<b>Long-Term Liabilities:</b>					
General obligation bonds payable (note 5)	10,686	—	—	—	10,686
Notes, mortgages, and installment contracts payable	1,198	10,541	12,594	—	24,333
Accrued vacation and retirement benefits payable	28,782	—	20,885	—	49,667
Revenue bonds payable	167,385	768,021	—	—	935,406
Reserve for losses and loss adjustment costs	8,338	—	—	—	8,338
Capital lease obligations	15,445	—	24,368	—	39,813
Deferred commitment fees	—	5,142	—	—	5,142
Total Long-Term Liabilities	231,834	783,704	57,847	—	1,073,385
Total Liabilities	385,387	881,946	166,734	1,636	1,435,703
<b><u>NET ASSETS</u></b>					
Invested in capital assets, net of related debt	530,617	279,581	141,502	—	951,700
Restricted	305,212	746,855	2,131	—	1,054,198
Unrestricted (deficit)	220,812	(338,474)	(45,930)	195,754	32,162
Total Net Assets	\$ 1,056,641	\$ 687,962	\$ 97,703	\$ 195,754	\$ 2,038,060



# STATE OF HAWAII

## Component Units

### Statement of Revenues, Expenditures, and Changes in Net Assets

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

	University of Hawaii	Housing and Community Development Corporation of Hawaii	Hawaii Health Systems Corporation	Hawaii Hurricane Relief Fund	Total Component Units
<b>Expenses</b>	\$ 922,626	\$ 162,625	\$ 333,443	\$ 336	\$ 1,419,030
<b>Program Revenues:</b>					
Charges for current services	184,120	73,081	288,410	109	545,720
Operating grants and contributions	302,031	113,750	2,448	—	418,229
Capital grants and contributions	44,632	24,142	6,228	—	75,002
Total Program Revenues	530,783	210,973	297,086	109	1,038,951
Net Program Revenues (Expenses)	(391,843)	48,348	(36,357)	(227)	(380,079)
<b>General Revenues (Expenses):</b>					
Interest and investment income	8,867	—	221	9,963	19,051
Payments from (to) the State	480,932	(25,716)	25,695	(36,162)	444,749
Other	(884)	—	442	—	(442)
Net General Revenues (Expenses)	488,915	(25,716)	26,358	(26,199)	463,358
Change in Net Assets	97,072	22,632	(9,999)	(26,426)	83,279
<b>Net Assets – Beginning</b>	959,569	665,330	107,702	222,180	1,954,781
<b>Net Assets – Ending</b>	\$ 1,056,641	\$ 687,962	\$ 97,703	\$ 195,754	2,038,060

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the State of Hawaii (the State) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State's accounting policies are described below.

#### A. Reporting Entity

The State has defined its reporting entity in accordance with GASB Statement No. 14, *The Financial Reporting Entity*. The accompanying basic financial statements present the financial activity of the State (Primary Government) and its Component Units, entities for which the Primary Government is considered to be financially accountable. Discretely presented Component Units are legally separate organizations for which the Primary Government is financially accountable or for which the nature and significance of their relationship to the Primary Government are such that exclusion would cause the State's reporting entity to be misleading or incomplete.

##### *Primary Government*

The following branches and departments are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

##### **Executive:**

- Accounting and General Services
- Agriculture
- Attorney General
- Budget and Finance
- Business, Economic Development and Tourism
- Commerce and Consumer Affairs
- Defense
- Education
- Hawaiian Home Lands
- Health
- Human Resources Development
- Human Services
- Labor and Industrial Relations
- Land and Natural Resources
- Public Safety
- Taxation
- Transportation

##### **Judicial**

##### **Legislative**

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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### ***Discretely Presented Component Units***

The Component Units column in the basic financial statements includes the financial data of the State's discretely presented Component Units. They are reported in a separate column to emphasize that they are legally separate from the State. The governing bodies of these discretely presented Component Units are appointed by the Governor. The discretely presented Component Units are as follows:

#### **University of Hawaii**

The State's public institutions of higher education provide instruction and conduct research in, and disseminate knowledge of agriculture, economics, history, languages, literature, mathematics, mechanical arts, natural sciences, philosophy, political and social sciences, physics, and such other branches of advanced learning as the Board of Regents of the University of Hawaii (UH), may prescribe, and the federal government require.

Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of the UH. The activities of the UH are under the general management of the Board of Regents consisting of 11 members who are appointed and may be removed by the Governor.

#### **Housing and Community Development Corporation of Hawaii**

The Housing and Community Development Corporation of Hawaii (HCDCH) was established as a corporate body to be placed within the Department of Business, Economic Development and Tourism for administrative purposes. The HCDCH's housing programs include performing housing finance, housing development, and residential leasehold functions; and clearing, replanning, and reconstructing areas in response to the State Legislature's determination that there exists a critical shortage of safe and sanitary, affordable housing units for lower income residents. The State has the ability to influence the budget and programs of the HCDCH.

HRS Chapter 201G states that the HCDCH shall be a public body and a body corporate and politic. The statute provides that the HCDCH shall be headed by a Board of Directors comprised of nine members. The nine members consist of the following:

- Six public members appointed by the Governor (two appointed at large, and the remaining four appointed from each of the counties of Honolulu, Hawaii, Kauai, and Maui);
- The Director of Business, Economic Development and Tourism;
- The Director of Human Services; and
- The Representative of the Governor's Office.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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### **Hawaii Health Systems Corporation**

The Hawaii Health Systems Corporation (HHSC) was established as a corporate body to be placed within the Department of Health for administrative purposes. The HHSC, consisting of the state hospitals, was created to provide quality health care for all of the people in the State, including those served by small rural facilities, by freeing the facilities from unwarranted bureaucratic oversight.

Act 262, Session Laws of Hawaii (SLH) of 1996, states that the HHSC shall be a public body corporate and politic and an instrumentality and agency of the State. The HHSC commenced operations on July 1, 1996. The statute provides that the HHSC shall be governed by a Board of Directors. The Board consists of the following 13 members:

- Ten members appointed by the Governor:
  - One member from each of the counties of Honolulu, Kauai, and Maui;
  - Two members from the county of Hawaii;
  - One member from either the county of Kauai, or the county of Maui (district of Hana or island of Lanai); and
  - Four at-large members;
- The chairperson of the executive public health facility management advisory committee, as an Ex Officio voting member;
- A physician appointed by the executive public health facility management advisory committee; and
- The Director of Health, as an Ex Officio voting member.

The State provides significant operating subsidies to the HHSC. Accordingly, a financial benefit/burden relationship exists between the State and the HHSC.

Negotiations between the HHSC and the State relating to the allocation of assets, liabilities, and fund balances between the Department of Health and the HHSC pursuant to Act 262 were ongoing as of June 30, 2003. Accordingly, the assets, liabilities, and net assets of the HHSC reflected in the accompanying basic financial statements at June 30, 2003 may be significantly different from those included in the final settlement.

The HHSC is comprised of the following state hospitals:

Hale Ho'ola Hamakua fka Honokaa Hospital  
Hilo Medical Center  
Ka'u Hospital  
Kauai Veterans Memorial Hospital  
Kohala Hospital  
Kona Community Hospital

Kula Hospital  
Lanai Community Hospital  
Leahi Hospital  
Samuel Mahelona Memorial Hospital  
Maluhia (A Long-Term Care Health Center)  
Maui Memorial Medical Center

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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### **Hawaii Hurricane Relief Fund**

The Hawaii Hurricane Relief Fund (HHRF) was organized pursuant to, and operates in accordance with, HRS Chapter 431P. The HHRF, which began its operations on July 1, 1993, was established as a public body and a body corporate and politic to be placed within the Department of Commerce and Consumer Affairs for administrative purposes. The HHRF was primarily organized to provide hurricane property insurance policies in Hawaii in the event the private insurance market does not make such policies readily available to consumers in Hawaii.

Due to the increase in the availability of hurricane property insurance coverage from the private sector, the HHRF ceased writing hurricane property insurance policies effective December 1, 2000.

In conjunction with the HHRF's cessation of providing hurricane property insurance coverage, servicing carriers are exempted from the 3.75% assessment of their gross direct written premiums for property and casualty insurance in Hawaii, once they begin to offer their own policies. All remaining carriers are exempted effective September 30, 2001. Further, the collection of the special mortgage recording fees from mortgagors has also been suspended as of July 1, 2001.

Although the HHRF no longer functions in its capacity to provide hurricane property insurance coverage subsequent to November 2001, it has been determined at this time that the HHRF should not be dissolved in the event it may need to re-enter the insurance market.

The HHRF is administered and operated by a Board of Directors. The Board consists of the following seven members:

- The Insurance Commissioner, as an Ex Officio voting member, appointed by the Governor; and
- Six members appointed by the Governor with the advice and consent of the Senate:
  - Two members appointed by the Governor;
  - Two members appointed by the Governor from a list of nominations submitted by the President of the Senate; and
  - Two members appointed by the Governor from a list of nominations submitted by the Speaker of the House of Representatives.

Information for obtaining financial statements for the discretely presented Component Units may be obtained from the Department of Accounting and General Services.

The Employees' Retirement System of the State of Hawaii (ERS), which is administered on behalf of public employees for both the state and county governments, and the Office of Hawaiian Affairs (OHA), which exists for the betterment of the conditions of native Hawaiians, are excluded from the State's reporting entity because those agencies, based on the fiscal independence and/or separate legal entity status criteria of GASB Statement No. 14, are not accountable to the State.

Notes to Basic Financial Statements

June 30, 2003

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**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Primary Government and its Component Units. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from the legally separate Component Units for which the Primary Government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for Governmental Funds, Proprietary Funds, Fiduciary Funds, and major Component Units. However, the Fiduciary Funds are not included in the government-wide financial statements. Major individual Governmental Funds and major individual Proprietary Funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

**Government-Wide Financial Statements** – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

**Governmental Fund Financial Statements** – The Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax

# STATE OF HAWAII

## Notes to Basic Financial Statements

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revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits, and franchises.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred and funds are available.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The State records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

**Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements** – The financial statements of the Proprietary Funds, Fiduciary Funds, and Component Units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the State has elected not to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **D. Fund Accounting**

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

# STATE OF HAWAII

## Notes to Basic Financial Statements

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The financial activities of the State that are reported in the accompanying fund financial statements have been classified into the following major and nonmajor Governmental and Proprietary Funds. In addition, a description of the Fiduciary Funds and Component Units are as follows:

### ***Governmental Fund Types***

The State reports the following major Governmental Funds:

#### **General Fund**

This fund is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

#### **Capital Projects Fund**

This fund accounts for substantially all of the financial resources obtained and used for the acquisition or construction of the State's capital assets and facilities. Such resources are derived principally from proceeds of general obligation bond issues, federal grants, and transfers from the Special Revenue Funds.

The nonmajor Governmental Funds are comprised of the following:

#### **Special Revenue Funds**

These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.

#### **Debt Service Fund**

This fund accounts for the financial resources obtained and used for the payment of principal and interest on general long-term bond obligations.

### ***Proprietary Fund Type – Enterprise Funds***

The major Enterprise Funds are comprised of the following:

#### **Department of Transportation – Airports Division (Airports)**

Airports operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.

#### **Department of Transportation – Harbors Division (Harbors)**

Harbors maintains and operates the State's commercial harbors system.

#### **Unemployment Compensation Fund**

This fund accounts for the unemployment compensation benefits to qualified recipients.



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## Notes to Basic Financial Statements

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The nonmajor Enterprise Fund is comprised of the Health Fund. This fund accounts for the Hawaii Public Employees Health Fund, which includes medical, dental, and life insurance coverage.

### *Fiduciary Fund Types*

#### **Private-Purpose Trust Fund**

Act 14, Special SLH of 1995, was approved by the Governor on June 29, 1995 and obligates the State to make 20 annual deposits of \$30,000,000, or their discounted value equivalent, into the Hawaiian Home Lands Trust Fund beginning in the fiscal year ended June 30, 1996. The primary purpose of Act 14 is to resolve controversies and claims related to the Hawaiian Home Lands trust which arose between August 31, 1959 and July 1, 1988. Act 14 also established in the State Treasury a trust fund known as the Hawaiian Home Lands Trust Fund.

#### **Agency Funds**

These funds account for assets held by the State in an agency capacity.

### *Component Units*

Component Units are comprised of (1) the UH, which is comprised of the State's public institutions of higher education; (2) the HCDCH which provides dwelling units for low and moderate income residents of the State; (3) the HHSC which was established to provide quality health care for all of the people of the State; and (4) the HHRF which funds, assesses, and provides, when necessary, hurricane property insurance to residents of the State.

### **E. Cash and Short-Term Investments**

Cash and short-term investments include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and all time certificates of deposit.

For purposes of the statement of cash flows, the State has defined cash equivalents to be all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

### **F. Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All tax and other receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

# STATE OF HAWAII

## Notes to Basic Financial Statements

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### **G. Investments**

Investments in U.S. government securities, corporate debt, and equity securities are carried at fair value. Investments in time certificates of deposit and repurchase agreements are carried at cost.

### **H. Inventories**

Inventories of developments in progress and units available for sale are stated at the lower of cost or estimated net realizable value, with cost being determined by the specific-identification method. All estimated carrying costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Units available for sale include constructed units, developed lots, and repurchased units available for sale. Developments in progress include construction in progress and land held for future development.

Materials and supplies inventories are stated at the lower of cost or market, with cost being determined principally using the first-in, first-out method.

Inventories in the Governmental Funds are recorded as expenditures when consumed rather than when purchased.

### **I. Restricted Assets**

Revenue bond indentures authorize the State's trustees to invest monies in time certificates of deposit, money market funds, and investment securities, including U.S. government or agency obligations, certain municipal bonds, and repurchase agreements. Uninsured time certificates of deposit are required to be collateralized by investment securities of an equal or greater market value. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater market value held by the State's agent in the State's name.

### **J. Capital Assets**

Capital assets, which include land and land improvements, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), buildings, improvements, and equipment, are reported in the applicable governmental and business-type activities columns, as well as the Component Units column, in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed to the extent the State's capitalization thresholds are met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

The State's capitalization thresholds are \$5,000 for equipment, and \$100,000 for land and land improvements, infrastructure, and buildings and improvements. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts and any resulting gain or loss is recognized in the statement of activities.

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## Notes to Basic Financial Statements

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Capital assets of the Primary Government, as well as the Component Units, are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	12 to 50 years
Buildings and improvements	15 to 30 years
Equipment	5 to 7 years

Works of art and historical treasures held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are not capitalized. These items are protected, kept encumbered, conserved, and preserved by the State. It is the State's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

### **K. Compensated Absences**

It is the State's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the government-wide, Proprietary Fund, and Component Unit financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

### **L. Long-Term Obligations**

In the government-wide financial statements, and Proprietary Fund Types in the fund financial statements, as well as in the Component Unit financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, Proprietary Fund Type, or Component Unit statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, Governmental Funds recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Notes to Basic Financial Statements**

June 30, 2003

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**M. Net Assets and Fund Equity**

In the government-wide financial statements and Proprietary Fund and Component Unit financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the State (such as creditors, grantors, and contributors), or imposed by law through enabling legislation, and include unspent proceeds of bonds issued to acquire or construct capital assets.

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Portions of fund balances are reserved in the fund financial statements for the following:

- Continuing appropriations which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments which generally are liquidated in the subsequent fiscal year. Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.
- Notes and loans receivable, advances, and investments which are not currently available for expenditure at the Governmental Funds' balance sheet date.
- Federal aid highway projects encumbrances.
- Private-Purpose Trust Fund balances which are restricted to the purpose of the accounts.

Portions of the unreserved fund balances are designated for future capital and operating expenditures. Those designated fund balances represent appropriations which have not been allotted and are established to reflect tentative plans for the future use of financial resources.

**N. Nonexchange Transactions**

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources, the Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues.

**O. Medicare and Medicaid Reimbursements**

Revenues from services reimbursed under Medicare and Medicaid programs are recorded at the estimated reimbursable amounts. Final determination of the amounts earned is subject to review by the fiscal intermediary or a peer review organization. The State has the opinion that adequate provision has been made for any adjustments that may result from such reviews.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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### **P. Risk Management**

The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first \$250,000 per occurrence of property losses and the first \$3 million with respect to general liability claims. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$25 million (including named hurricane, earthquake and flood subject to exclusions) and the annual aggregate for general liability losses per occurrence is \$7 million. The State also has an insurance policy to cover medical malpractice risk in the amount of \$20 million per occurrence with no annual aggregate limit. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, estimates (based on projections of historical developments) of claims incurred but not reported, and estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

### **Q. Deferred Compensation Plan**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

### **R. Estimates**

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

Notes to Basic Financial Statements

June 30, 2003

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**(2) BUDGETING AND BUDGETARY CONTROL**

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues, expenditures, and changes in fund balance – budget and actual (budgetary basis) – general fund are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2001 (Act 259, SLH of 2001), as amended by the Supplemental Appropriations Act of 2002 (Act 177, SLH of 2002), and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2001-2003 biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund's appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying statement of revenues, expenditures, and changes in fund balance – budget and actual (budgetary basis) – general fund represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2003, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, the General Fund's appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund are presented in the statement of revenues, expenditures, and changes in fund balance – budget and actual (budgetary basis) – general fund. The State's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to (1) the encumbrance of purchase order and contract obligations and equipment acquired through long-term financing (basis difference) and (2) the accounting for transfers of debt service payments through the General Fund (perspective difference), which represent departures from GAAP.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2003 follows (amounts expressed in thousands):

	<u>General Fund</u>
Deficiency of revenues and other sources over expenditures and other uses – actual (budgetary basis)	\$ (14,247)
Reserve for encumbrances at fiscal year-end*	155,918
Expenditures for liquidation of prior fiscal year encumbrances	(222,782)
Revenues and expenditures for unbudgeted programs and capital projects accounts, net	(27)
Tax refunds payable	1,300
Accrued liabilities	13,837
Accrued revenues	(9,900)
	<u>                    </u>
Net change in fund balance – GAAP basis	\$ <u><u>(75,901)</u></u>

\* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

### (3) CASH AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State which in the Director's judgment are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Primary Government based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

#### A. Cash

The State maintains approximately 20 bank accounts for various purposes at locations throughout the State and the nation. Bank deposits are under the custody of the Director of Finance. For financial statement reporting purposes, cash and short-term investments consist of cash, time certificates of deposit, and money market accounts. Cash and short-term investments also include repurchase agreements and U.S. government securities with original maturities of three months or less.

For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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The carrying amount of the State's deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2003 was \$1,406,122,000 for the Primary Government and \$43,306,000 for the Fiduciary Funds. The difference between deposits and cash and short-term investments as reflected in the basic financial statements for the Primary Government relate to repurchase agreements and U.S. government securities with original maturities of three months or less amounting to \$32,835,000.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits amounted to \$1,633,055,229 at June 30, 2003. The portion of such bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State totaled \$1,307,603,006. The remaining bank balances of \$325,452,223 represent deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized and the Special Revenue Funds' and Enterprise Funds' cash in bank which was uninsured and uncollateralized. The Special Revenue Funds' and Enterprise Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations.

### **B. Investments**

The State holds investments both for its own benefit and as an agent for other parties. The State's investment of funds not required for immediate payments are predominantly comprised of U.S. government securities.

The following tables present the State's investments at June 30, 2003 (amounts expressed in thousands), and provide information about the custodial credit risks associated with the State's investments. The three categories of custodial credit risk are:

- Category 1: Investments which are insured or registered, or securities held by the State or its agent in the State's name.
- Category 2: Investments which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.



# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

- Category 3: Investments which are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

			Category		
	Fair Value		1	2	3
Investments – Primary Government:					
U.S. government securities	\$ 722,382	\$ 722,382	\$ —	\$ —	
Repurchase agreements	146,437	146,437	—	—	
Miscellaneous	61,310	61,310	—	—	
	930,129	930,129	—		
Less:					
Restricted assets investments	(85,284)	(85,284)	—		
Investments reported as cash and short-term investments	(32,835)	(32,835)	—		
	\$ 812,010	\$ 812,010	\$ —	\$ —	
Investments – Fiduciary Funds:					
U.S. government securities	\$ 11	\$ 11	\$ —	\$ —	
Repurchase agreements	82,053	82,053	—	—	
Corporate stocks and bonds	138,780	138,780	—	—	
Miscellaneous	129	129	—	—	
	\$ 220,973	\$ 220,973	\$ —	\$ —	

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

### (4) CAPITAL ASSETS

For the fiscal year ended June 30, 2003, capital asset activity for the Primary Government (governmental activities and business-type activities) were as follows (amounts expressed in thousands):

	Governmental Activities		
	Balance July 1, 2002	Additions	Deletions
Capital assets not being depreciated:			
Land and land improvements	\$ 2,302,816	\$ 24,027	\$ —
Construction in progress	672,238	208,455	96,302
Total capital assets not being depreciated	2,975,054	232,482	96,302
Capital assets being depreciated:			
Infrastructure	7,511,804	11,176	85
Buildings and improvements	2,397,953	81,253	38,716
Equipment	222,744	24,024	31,434
Total capital assets being depreciated	10,132,501	116,453	70,235
Less accumulated depreciation:			
Infrastructure	(2,597,960)	(253,212)	(85)
Buildings and improvements	(1,063,721)	(76,521)	(751)
Equipment	(175,743)	(16,007)	(25,517)
Total accumulated depreciation	(3,837,424)	(345,740)	(26,353)
Total capital assets	\$ 9,270,131	\$ 3,195	\$ 140,184

## STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

	Business-Type Activities			
	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Capital assets not being depreciated:				
Land and land improvements	\$ 539,651	\$ 185	\$ —	\$ 539,836
Construction in progress	127,179	66,620	51,323	142,476
Total capital assets not being depreciated	666,830	66,805	51,323	682,312
Capital assets being depreciated:				
Buildings and improvements	2,351,111	49,373	664	2,399,820
Equipment	186,128	3,974	983	189,119
Total capital assets being depreciated	2,537,239	53,347	1,647	2,588,939
Less accumulated depreciation:				
Buildings and improvements	(960,616)	(80,408)	—	(1,041,024)
Equipment	(150,112)	(11,164)	(922)	(160,354)
Total accumulated depreciation	(1,110,728)	(91,572)	(922)	(1,201,378)
Total capital assets	\$ 2,093,341	\$ 28,580	\$ 52,048	\$ 2,069,873

Depreciation expense for the fiscal year ended June 30, 2003 was charged to functions/programs of the Primary Government as follows:

Governmental Activities:	
General government	\$ 17,126
Public safety	7,962
Highways	248,459
Conservation of natural resources	5,798
Health	3,979
Welfare	1,314
Lower education	37,839
Culture and recreation	932
Urban redevelopment and housing	22,331
Total depreciation expense – governmental activities	\$ 345,740
Business-Type Activities:	
Airports	\$ 78,205
Harbors	13,367
Total depreciation expense – business-type activities	\$ 91,572

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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### (5) GENERAL OBLIGATION BONDS PAYABLE

The State issues general obligation bonds primarily to provide for the acquisition and construction of major capital facilities. Although certain general obligation debt is being retired from the resources of the Proprietary Funds and Component Unit – UH and is recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues except Series BL, issued December 6, 1998; certain maturities of Series BQ, issued November 28, 1989; Series BW, issued March 1, 1992; Series BZ, issued October 1, 1992; Series CA and CB, issued January 1, 1993; Series CH and CI, issued November 1, 1993; Series CM, issued December 1, 1996; Series CO, issued March 1, 1997; Series CQ, issued October 1, 1997; and Series CS, issued April 1, 1998, contain call provisions (call prices range from \$100 to \$103). Stated interest rates range from 2.65% to 8.00%.

In November 2002, the State issued \$300,000,000 of general obligation bonds, Series CZ, dated November 26, 2002, with interest rates ranging from 2.65% to 5.50%. Bonds maturing on and after July 1, 2013 are subject to redemption at the option of the State at any time after July 1, 2012 at 100% of the principal amount to be redeemed plus accrued interest to the redemption date. The bonds were issued for the purpose of financing public improvement projects.

At June 30, 2003, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable		\$	2,470,920
Noncallable			<u>1,177,448</u>
Total general obligation bonds outstanding			3,648,368
Less amount recorded as a liability of:			
Proprietary Funds (business-type activities), including			
\$19 payable from restricted assets	\$	225	
Component Unit – UH		<u>13,405</u>	
			<u>13,630</u>
Amount recorded in the governmental			
activities of the Primary Government		\$	<u><u>3,634,738</u></u>

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## Notes to Basic Financial Statements

June 30, 2003

A summary of general obligation bonds outstanding by series as of June 30, 2003 follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Amount Outstanding
X	August 1, 1972	4.000%	August 1, 2003 – 2007	\$ 1,425
BL	December 6, 1988	7.681%	December 1, 2005 – 2008	16,250
BQ	November 28, 1989	7.100% – 7.150%	December 1, 2005 – 2009	22,223
BW	March 1, 1992	6.250% – 6.400%	March 1, 2006 – 2012	38,885
BZ	October 1, 1992	5.800% – 6.000%	October 1, 2005 – 2012	100,000
CA	January 1, 1993	5.500% – 8.000%	January 1, 2005 – 2013	45,000
CB	January 1, 1993	5.500% – 5.750%	January 1, 2004 – 2008	41,475
CC	February 1, 1993	5.000% – 5.125%	February 1, 2004 – 2009	143,500
CG	July 1, 1993	4.700% – 5.000%	July 1, 2003 – 2006	5,500
CH	November 1, 1993	4.300% – 6.000%	November 1, 2003 – 2013	152,770
CI	November 1, 1993	4.300% – 4.900%	November 1, 2003 – 2010	169,005
CK	September 1, 1995	5.000%	September 1, 2005 – 2006	11,110
CL	March 1, 1996	5.100% – 6.000%	March 1, 2006 – 2011, 2013 – 2016	49,995
CM	December 1, 1996	6.000% – 6.500%	December 1, 2005 – 2016	99,990
CN	March 1, 1997	5.250% – 6.250%	March 1, 2004 – 2015, 2017	291,665
CO	March 1, 1997	4.750% – 6.000%	September 1, 2003 – 2010, March 1, 2004 – 2011	170,985
CP	October 1, 1997	5.000% – 5.500%	October 1, 2003 – 2017	178,175
CQ	October 1, 1997	4.250% – 5.000%	October 1, 2003 – 2004	25,320
CR	April 1, 1998	4.750% – 5.750%	April 1, 2004 – 2018	287,815
CS	April 1, 1998	5.000% – 5.250%	April 1, 2004 – 2009	295,545
CT	September 15, 1999	5.250% – 5.750%	September 1, 2005 – 2012	118,715
CU	October 15, 2000	4.600% – 5.750%	October 1, 2005 – 2013	56,980
CV	August 1, 2001	4.800% – 5.500%	August 1, 2005 – 2021	300,000
CW	August 1, 2001	3.400% – 5.500%	August 1, 2005 – 2015	156,750
CX	February 15, 2002	3.600% – 5.500%	February 1, 2007 – 2022	250,000
CY	February 15, 2002	3.600% – 5.750%	February 1, 2007 – 2015	319,290
CZ	November 26, 2002	2.650% – 5.500%	July 1, 2007 – 2022	300,000
				<u>\$ 3,648,368</u>

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

A summary of debt service requirements to maturity follows (amounts expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2004	\$ 178,029	\$ 191,409	\$ 369,438
2005	189,040	180,780	369,820
2006	268,089	189,030	457,119
2007	315,830	177,166	492,996
2008	331,875	163,313	495,188
2009 – 2013	1,314,904	499,005	1,813,909
2014 – 2018	750,470	173,764	924,234
2019 – 2023	300,131	37,484	337,615
	<u>\$ 3,648,368</u>	<u>\$ 1,611,951</u>	<u>\$ 5,260,319</u>

In prior fiscal years, the State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2003, \$639,054,637 of bonds outstanding is considered defeased.

The State Constitution limits the amount of general obligation bonds which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit on the aforementioned issues. The legal debt margin at June 30, 2003 was \$136,344,000.

At June 30, 2003, general obligation bonds authorized but unissued was approximately \$844,094,000.

### (6) REVENUE BONDS PAYABLE

#### A. Governmental Activities

On March 25, 2003, the State issued \$44,940,000 in Highway Revenue Bonds with an average interest rate of 4.33% to advance refund \$45,350,000 of outstanding State of Hawaii Highway Revenue Bonds, Series of 1993, with an average interest rate of 4.42%. The net proceeds of \$47,791,108 (after payment of \$522,231 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series of 1993 bonds. As a result, the Series of 1993 bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide financial statements.

The State advance refunded the Series of 1993 bonds to reduce its total debt service payments over the next 11 years by \$2,609,892 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,222,358.

On October 25, 2001, the Department of Transportation – Highways Division (Highways) issued \$70,000,000 of State of Hawaii Highway Revenue Bonds, Series of 2001. The bonds bear interest at rates ranging from 3.75% to 5.375% and are payable semi-annually on January 1 and July 1 through July 2022.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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On October 31, 2000, Highways issued State of Hawaii Highway Revenue Bonds, Series of 2000, in the principal amount of \$45,360,000. The bonds bear interest at rates ranging from 4.40% to 5.50% and mature in annual installments through fiscal 2021.

The bonds are payable solely from and collateralized by the revenues consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes, and rental motor vehicle and tour vehicle surcharge taxes.

On January 15, 1999, the Department of Hawaiian Home Lands (DHHL) issued revenue bonds, Refunding Series of 1999, in the principal amount of \$13,370,000. Bond proceeds related to this issue amounted to \$13,334,000. The difference in the principal amount and proceeds relates to bond discount and accrued interest. The bonds bear interest at rates ranging from 3.80% to 4.45% and mature in increasing annual installments through fiscal 2012. The proceeds from the bonds were used to advance refund certain maturities of the Series of 1991 bonds. The bonds are payable from and secured by the DHHL's revenues from available lands.

On July 1, 1998, Highways issued State of Hawaii Highway Revenue Bonds, Series of 1998, in the principal amount of \$94,920,000. Bond proceeds related to this issue amounted to \$97,542,000, of which \$71,921,000 is to be used to finance certain highway improvements and other related projects for the state highways system, and \$25,621,000 was used to refund certain outstanding State of Hawaii Highway Revenue Bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest at rates ranging from 4.00% to 5.50% and mature in annual installments through fiscal 2019.

On September 1, 1996, Highways issued \$55,000,000 in State of Hawaii Highway Revenue Bonds, Series of 1996. The bonds bear interest at rates ranging from 3.80% to 6.00% and mature in increasing annual installments through fiscal 2014.

On September 1, 1993, Highways issued \$75,000,000 in State of Hawaii Highway Revenue Bonds, Series of 1993. The bonds bear interest at rates ranging from 2.60% to 5.00% and mature in increasing annual installments through fiscal 2013.

The proceeds of the DHHL's revenue bonds, Refunding Series of 1999, and a portion of the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 1998 (see above), were placed in irrevocable trusts and used to purchase securities of the U.S. government to meet the debt service requirements of the refunded bonds.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as the DHHL and Highways defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2003, \$45,350,000 of bonds outstanding is considered defeased.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

The following is a summary of Highways' and DHHL's revenue bonds issued and outstanding at June 30, 2003 (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Outstanding Amount
Highways:				
1996	September 1, 1996	3.800% – 6.000%	July 1, 2007 – July 1, 2013	\$ 34,635
1998	July 1, 1998	4.000% – 5.500%	July 1, 2003 – July 1, 2018	79,315
2000	October 31, 2000	4.400% – 5.500%	July 1, 2003 – July 1, 2020	47,325
2001	October 25, 2001	3.750% – 5.375%	July 1, 2003 – July 1, 2022	70,000
2003	March 25, 2003	2.000% – 5.250%	July 1, 2004 – July 1, 2013	44,940
DHHL:				
1999	January 15, 1999	3.800% – 4.450%	July 1, 2003 – July 1, 2011	12,255
				<u>\$ 288,470</u>

Debt service requirements to maturity on the DHHL's and Highways' revenue bonds are aggregated below (amounts expressed in thousands):

	Principal	Interest	Total
Fiscal year:			
2004	\$ 11,790	\$ 13,381	\$ 25,171
2005	12,585	13,382	25,967
2006	13,050	12,886	25,936
2007	13,535	12,356	25,891
2008	14,120	11,782	25,902
2009 – 2013	79,180	48,255	127,435
2014 – 2018	94,495	26,530	121,025
2019 – 2023	49,715	4,652	54,367
	<u>\$ 288,470</u>	<u>\$ 143,224</u>	<u>\$ 431,694</u>

### B. Business-Type Activities

Revenue bonds are backed by a pledge of resources derived from users of the related facilities and are not supported by the full faith and credit of the State.

#### *Airports System Revenue Bonds*

The Airports system revenue bonds are payable solely from and collateralized by airport revenues, which include all aviation fuel taxes levied. The Airports system revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from \$102 to \$100.



# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

The following is a summary of Airports system revenue bonds issued and outstanding at June 30, 2003 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
1993, refunding	4.00% – 6.45%	2013	\$ 131,035	\$ 89,900
1994, first refunding	4.15% – 5.60%	2004	63,455	20,725
2000A, refunding	5.50% – 6.00%	2021	26,415	26,415
2000B, refunding	5.00% – 8.00%	2020	261,465	249,275
2001, refunding	4.00% – 5.75%	2021	423,255	423,255
			<u>\$ 905,625</u>	<u>809,570</u>
Add unamortized premium				16,223
Less:				
Unamortized discount				(1,226)
Deferred loss on refunding				(19,992)
Current portion				<u>(19,550)</u>
Noncurrent portion				<u>\$ 785,025</u>

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provide reserves for maturing debt principal, interest, sinking fund, and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverages for fire, workers' compensation, and public liability. At June 30, 2003, \$191,048,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

### *Airports Special Facility Revenue Bonds*

Airports has four special facility lease agreements with Western Airlines, Inc. in 1975 (merged with Delta Airlines, Inc. in 1987), with Continental Airlines, Inc. in July 1990 and November 1997, and with Caterair International Corporation in December 1990. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of \$2,300,000, \$16,600,000, \$25,255,000, and \$6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to \$40,845,000 at June 30, 2003.

The following is a summary of pertinent information on Airports special facility revenue bonds at June 30, 2003:

### **\$2,300,000 Issue**

The bonds have a stated maturity date of June 1, 2005 and bear interest at 6.50% per annum. The bonds are subject to early redemption at the option of Airports, at \$100.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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### **\$16,600,000 Issue**

On July 15, 2000, Airports issued \$16,600,000 of term special facility bonds (Continental Airlines, Inc.), Refunding Series of 2000, with an interest rate of 7.00%, due June 1, 2020, to, in part, refund \$18,225,000 of its outstanding Series of 1990 bonds (Continental Airlines, Inc.), with interest rates ranging from 9.60% to 9.70%. The bonds are subject to redemption on or after June 1, 2010, at the option of Airports, upon the request of Continental Airlines, Inc. or, if the facilities are destroyed or damaged extensively, at 100% of principal plus interest.

### **\$25,255,000 Issue**

The bonds bear interest at 5.625% and are subject to redemption on or after November 15, 2007, at the option of Airports, upon the request of Continental Airlines, Inc., at prices ranging from \$101 to \$100, depending on the dates of redemption, or at \$100 plus interest if the facilities are destroyed or damaged extensively.

Interest only payments are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due.

### **\$6,600,000 Issue**

The bonds bear interest at 10.125% and are subject to redemption on or after December 1, 2000, at the option of Airports, upon the request of Caterair International Corporation, at prices ranging from \$103 to \$100, depending on the dates of redemption, or at \$100 plus interest if the facilities are destroyed or damaged extensively.

The special facility leases are accounted for and recorded as direct financing leases. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as a restricted asset and the special facility revenue bonds outstanding are recorded as a liability.

### ***Harbors Revenue Bonds***

The Harbors revenue bonds are collateralized by a charge and lien on the gross revenues of the commercial harbors system and upon all improvements and betterments thereto and all funds and securities created in whole or in part from revenues or from the proceeds of any bonds issued. The Harbors revenue bonds are subject to redemption at the option of the DOT and the State during specific years at prices ranging from \$102.50 to \$100.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

The following is a summary of the Harbors revenue bonds as of June 30, 2003 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current		Noncurrent
				Principal Due July 1, 2003	Installment Payments Due in Anticipation of Principal Payments on July 1, 2004	
1993	July 1, 2008	4.50% – 6.40%	\$ 16,525	\$ 1,190	\$ 1,260	\$ 5,760
1994	July 1, 2024	5.50% – 6.25%	54,010	2,215	2,345	45,765
1997	July 1, 2027	3.95% – 5.75%	56,290	445	470	53,400
2000	July 1, 2029	4.50% – 6.00%	79,405	1,935	2,035	68,285
2002	July 1, 2019	3.00% – 5.50%	24,420	1,860	1,920	20,300
			<u>\$ 230,650</u>	<u>7,645</u>	<u>8,030</u>	<u>193,510</u>
Less:						
	Unamortized discount			—	(203)	(2,540)
	Unamortized deferred loss on refunding			—	—	(3,686)
				<u>\$ 7,645</u>	<u>\$ 7,827</u>	<u>\$ 187,284</u>

### *Harbors Special Facility Revenue Bonds*

In 1980, the State Legislature authorized the issuance of special facility revenue bonds for the construction, acquisition, remodeling, furnishing, and equipping of state-owned special facilities for lease to parties engaged in maritime operations.

Pursuant to this authorization, \$15,700,000 of 8-1/2% special facility revenue bond anticipation notes were issued in 1981 to finance the construction of container terminal facilities on Sand Island for the exclusive use of Matson Terminals, Inc. In 1983, special facility revenue bonds of \$16,750,000 were issued to refund the notes and to provide additional funds for construction. On April 15, 1993, special facility revenue bonds of \$16,500,000 were issued to refund the outstanding Series of 1983 bonds. The bonds, which bear interest at 5.75% per annum, mature on March 1, 2013, subject to optional redemption on or after March 1, 2003, at prices ranging from \$102 to \$100. Payment of the principal and interest on the bonds has been guaranteed by Matson Navigation Company, Inc., parent company of the lessee.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

Debt service requirements to maturity on the business-type activities revenue bonds for fiscal years ending June 30 are aggregated below (amounts expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2004	\$ 29,790	\$ 61,825	\$ 91,615
2005	45,460	60,122	105,582
2006	51,835	57,480	109,315
2007	54,740	54,512	109,252
2008	44,945	51,351	96,296
2009 – 2013	233,545	219,571	453,116
2014 – 2018	325,680	134,432	460,112
2019 – 2023	216,060	37,902	253,962
2024 – 2028	45,270	9,340	54,610
2029 – 2033	1,580	91	1,671
	<u>\$ 1,048,905</u>	<u>\$ 686,626</u>	<u>\$ 1,735,531</u>

### C. Revenue Bonds Authorized But Unissued

At June 30, 2003, revenue bonds authorized but unissued was approximately \$2,875,721,000.

### D. Special Purpose Revenue Bonds

HRS Chapter 39A authorizes the State (with legislative approval) to issue special purpose revenue bonds. Proceeds from those bonds are loaned to certain enterprises for projects deemed to be in the public interest. The bonds are not general obligations of the State and are payable solely from monies received by the State under project agreements with the recipients of the bond proceeds. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding at June 30, 2003 amounted to \$1,414,720,500. At June 30, 2003, special purpose revenue bonds of \$864,000,000 were authorized but unissued.

### E. Improvement District Bonds

The Hawaii Community Development Authority is authorized to issue improvement district bonds under HRS Chapter 206E. Proceeds from the bond issues are utilized to finance the redevelopment of districts designated by the State Legislature. The bonds are not general obligations of the State and are payable solely by assessment liens on the real property of the designated district. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding as of June 30, 2003 amounted to \$4,170,000.

## STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

**(7) CHANGES IN LONG-TERM LIABILITIES**

Changes in the long-term liabilities for the Primary Government (governmental activities and business-type activities) were as follows (amounts expressed in thousands):

Governmental Activities					
	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003	Due within one year
General obligation bonds payable, net (note 5)	\$ 3,568,001	\$ 319,771	\$ 253,034	\$ 3,634,738	\$ 178,020
Accrued vacation payable	151,483	87,384	82,998	155,869	51,519
Revenue bonds payable (note 6)	297,995	47,791	57,316	288,470	11,790
Reserve for losses and loss adjustment costs (note 13)	98,400	26,400	22,700	102,100	72,000
Claims and judgments payable	265,600	15,900	30,000	251,500	30,000
Capital lease obligations (note 10)	70,400	—	2,895	67,505	3,020
Total	<u>\$ 4,451,879</u>	<u>\$ 497,246</u>	<u>\$ 448,943</u>	<u>\$ 4,500,182</u>	<u>\$ 346,349</u>

Business-Type Activities					
	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003	Due within one year
General obligation bonds payable, net (note 5)	\$ 955	\$ —	\$ 730	\$ 225	\$ 28
Accrued vacation and retirement benefits payable	7,253	2,064	—	9,317	4,433
Revenue bonds payable (note 6)	1,111,520	—	35,420	1,076,100	35,872
Reserve for losses and loss adjustment costs	4,100	712	712	4,100	859
	1,123,828	2,776	36,862	1,089,742	41,192
Add unamortized premium	17,803	—	1,580	16,223	—
Less:					
Unamortized net discount	(4,326)	—	(357)	(3,969)	—
Deferred amount on refunding	(25,899)	—	(2,221)	(23,678)	—
	<u>\$ 1,111,406</u>	<u>\$ 2,776</u>	<u>\$ 35,864</u>	<u>\$ 1,078,318</u>	<u>\$ 41,192</u>

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

### (8) INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2003 (amounts expressed in thousands):

	<u>Due From</u>	<u>Due To</u>
<b>Governmental Funds:</b>		
General Fund:		
Capital Projects Fund	\$ 89,900	\$ —
Nonmajor Governmental Funds	23,700	148
UH	6,000	5,769
HHSC	14,000	—
	<u>133,600</u>	<u>5,917</u>
Capital Projects Fund:		
General Fund	—	89,900
Harbors	1,262	—
	<u>1,262</u>	<u>89,900</u>
Nonmajor Governmental Funds:		
General Fund	148	23,700
	<u>148</u>	<u>23,700</u>
<b>Proprietary Funds:</b>		
Harbors:		
Capital Projects Fund	—	1,262
	<u>—</u>	<u>1,262</u>
<b>Component Units:</b>		
UH:		
General Fund	5,769	6,000
	<u>5,769</u>	<u>6,000</u>
HHSC:		
General Fund	—	14,000
	<u>—</u>	<u>14,000</u>
	<u>\$ 140,779</u>	<u>\$ 140,779</u>

The due from Capital Projects Fund in the General Fund consists primarily of funds transferred prior to the issuance of bonds. Remaining interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

### (9) TRANSFERS

Transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended or when nonrecurring or nonroutine transfers of equity between funds occur. For the fiscal year ended June 30, 2003, transfers by fund were as follows (amounts expressed in thousands):

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Governmental Funds:</b>		
General Fund:		
Nonmajor Governmental Funds	\$ 149,485	\$ 348,418
Nonmajor Proprietary Fund	—	687
	<u>149,485</u>	<u>349,105</u>
Capital Projects Fund:		
Nonmajor Governmental Funds	69,009	5,800
Fiduciary Funds	—	30,000
	<u>69,009</u>	<u>35,800</u>
Nonmajor Governmental Funds:		
General Fund	348,418	149,485
Capital Projects Fund	5,800	69,009
Fiduciary Funds	170	—
	<u>354,388</u>	<u>218,494</u>
<b>Proprietary Funds:</b>		
Nonmajor Proprietary Fund:		
General Fund	687	—
	<u>687</u>	<u>—</u>
<b>Fiduciary Funds:</b>		
Private-Purpose Trust Fund:		
Capital Projects Fund	30,000	—
Agency Funds – Custodial:		
Nonmajor Governmental Funds	—	170
	<u>30,000</u>	<u>170</u>
	<u>\$ 603,569</u>	<u>\$ 603,569</u>

The General Fund transferred approximately \$327,300,000 to the Nonmajor Governmental Funds for debt service payments and approximately \$21,100,000 to subsidize various Special Revenue Fund programs. Approximately \$69,000,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects. The Capital Projects Fund transferred \$30,000,000 to the Fiduciary Funds to satisfy the obligation established by Act 14, SLH of 1995.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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### (10) LEASES

#### A. Lease Commitments

##### *Governmental Activities*

The State leases office facilities and equipment under various operating leases expiring through fiscal 2022. Future minimum lease commitments for noncancelable operating leases as of June 30, 2003 were as follows (amounts expressed in thousands):

Fiscal year:	
2004	\$ 6,566
2005	5,869
2006	4,686
2007	2,993
2008	1,558
2009 – 2013	4,087
2014 – 2018	3,897
2019 – 2023	3,273
2024 – 2028	188
Total future minimum lease payments	\$ <u>33,117</u>

Rent expenditures for operating leases for the fiscal year ended June 30, 2003 amounted to approximately \$46,000,000.

In November 1998, the State issued \$54,850,000 in Certificates of Participation (COPS) to purchase the Kapolei State Office Building (Kapolei Building). The proceeds of the COPS were remitted to the Kapolei Building's developer. The holders of the COPS are the current owners of the Kapolei Building. Accordingly, the State's rental payments for the use of the Kapolei Building are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 1999 and continue through May 1, 2018, with interest rates ranging from 3.10% to 5.25%. Title to the Kapolei Building will transfer to the State upon the payment of all required rents.

In December 2000, the State issued \$23,140,000 in COPS to purchase the No. 1 Capitol District State Office Building (Capitol District Building). The proceeds of the COPS were remitted to the former owners of the Capitol District Building. Accordingly, the State's rental payments for the use of the Capitol District Building are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2002 and continue through May 1, 2020, with interest rates ranging from 4.50% to 5.375%. Title to the Capitol District Building will transfer to the State upon the payment of all required rents.



# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

Future minimum lease payments for these capital leases are as follows (amounts expressed in thousands):

Fiscal year:	
2004	\$ 6,354
2005	6,351
2006	6,357
2007	6,352
2008	6,347
2009 – 2013	31,755
2014 – 2018	31,762
2019 – 2023	3,894
Total future minimum lease payments	99,172
Less amount representing interest	(31,667)
Present value of net minimum lease payments	\$ 67,505

### B. Lease Rentals

#### *Airports – Airport-Airline Lease Agreement*

Airports had an airport-airline lease agreement with certain major airline carriers (signatory airlines) which expired on July 31, 1992. The expired lease agreement provided the lessees with the nonexclusive right to use the Airports system facilities, equipment, improvements, and services, in addition to occupying certain premises and facilities. From August 1, 1992 through June 30, 1993, the signatory airlines continued operations under monthly negotiated agreements with the DOT.

In January 1994, the DOT and the signatory airlines executed a letter agreement to extend the expired airport-airline lease agreement to June 30, 1994. Under the terms of the letter agreement, the signatory airlines would continue to operate under the terms of the expired airport-airline lease agreement, with an adjustment for terms and provisions relating to Airports system rates and charges, which include landing fees, nonexclusive joint-use premise charges for terminal rentals (overseas terminal, new interisland terminal and the international arrivals building), exclusive use premise rentals and Airports system support charges. The letter agreement further stipulated that the aggregate of all such rates and charges, together with aviation fuel taxes (as adjusted for aviation fuel tax credits), payable to the DOT by the signatory airlines would not exceed \$84,175,000. The foregoing rates and charges were adjusted retroactively to July 1, 1993.

In June 1994, the DOT and the signatory airlines executed a lease extension agreement to extend the expired airport-airline lease agreement effective July 1, 1994 to June 30, 1997. Under the terms of the lease extension agreement, the signatory airlines would continue to operate under the terms of the expired airport-airline lease agreement, with an adjustment for terms and provisions relating to Airports system rates and charges. The nature of these charges is similar to those of the expired letter agreement; however, the lease extension agreement does not stipulate a maximum amount for aggregate Airports system charges. Instead, the lease extension agreement's residual rate-setting methodology provides for a final year-end reconciliation containing actual Airports system cost data

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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to determine whether Airports system charges assessed to the signatory airlines were sufficient to recover Airports system costs, including debt service requirements under the certificate providing for the issuance of revenue bonds. Annual settlements based on this final reconciliation are made in accordance with the terms of the lease extension agreement.

The DOT and the signatory airlines have mutually agreed to continue to operate under the terms of the lease extension agreement which provides for an automatic extension on a quarterly basis unless either party provides 60 days written notice to the other party of termination.

### ***Airports – Prepaid Airport Use Charge Fund***

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). During fiscal 2000, the parties agreed to transfer the signatory airlines' net excess payments for fiscal 1999, 1998, 1997, and 1996 into the PAUCF. Net excess payments for fiscal 2000 were transferred to the PAUCF in October 2001. Airports then paid \$460,000 out of the PAUCF to the signatory airlines in fiscal 2003.

### ***Airports – Aviation Fuel Tax***

In May 1996, the Department of Taxation issued a tax information release which stated that effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to \$2,854,123 for fiscal 2003.

### ***Airports – System Rates and Charges***

Signatory and non-signatory airlines were assessed the following rates and charges:

- Landing fees, net of aviation fuel tax credits, amounted to \$34,579,691 for fiscal 2003 based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings.
- Nonexclusive joint-use premise charges for terminal rentals amounted to \$25,095,942 for fiscal 2003. The State waived the signatory airlines' underpayment of nonexclusive joint-use premise charges of \$3,557,938. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing.
- Exclusive use premise charges amounted to \$27,697,345 for fiscal 2003 and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to \$15,616,153 for fiscal 2003.
- Airports system support charges amounted to \$896,109 for fiscal 2003. The charges were established to recover residual costs of the Airports system and are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings.

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## Notes to Basic Financial Statements

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### *Airports – Other Operating Leases*

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2003 was approximately \$44,219,000.

Concession fees revenues from the DFS Group L.P. (DFS) concession contract accounted for approximately 57% of total concession fees revenues for the fiscal year ended June 30, 2003. The DFS concession contract, effective June 1, 2001, provided for payment of 30% of gross sales attributable to on-airport premises against 20% of the minimum annual guarantee payments aggregating \$300,000,000 over the five-year contract and 22.5% of gross sales attributable to off-airport premises against 80% of the minimum annual guarantee payments aggregating \$300,000,000 over the five-year contract. The DFS retail concession contract, effective March 15, 2001, provides for payment of 20% of gross sales against minimum guarantee payments aggregating \$47,250,000 over the five-year contract.

The DFS concession contracts provide for quarterly advance payments due on March 1, June 1, September 1, and December 1 of each year.

Pursuant to the proclamation by the Governor declaring an economic emergency, Airports, under the approval from the Governor, established the Airport Concession Relief Program (Program). The Program, effective September 11, 2001 through April 30, 2002, granted relief to qualified airport concessionaires in the form of a limited waiver of the minimum annual rent payable under the concession agreements. During such time of the waiver of the minimum annual payments, the concessionaires continued to pay their required percentage rents.

To be eligible to participate in the Program, concessionaires must have met the following four requirements: (1) hold an existing contract on September 11, 2001; (2) prove they suffered significant losses since September 11, evidenced by at least a 15% decline in business volume after consideration of insurance and federal benefits received; (3) agree to submit a weekly report on daily sales, remit percentage rent payment for estimated sales on the first of each month, and submit all reports in accordance with the terms of the concessionaire's contract; and (4) be in good standing on September 11, 2001 and remain in good standing for the time period of the waiver. The total relief granted to qualified concessionaires approximated \$26,100,000.

As of June 30, 2003, DFS, who operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, was in significant arrears in the rents due to Airports. A significant cause of DFS's financial difficulty stemmed from the downturn in Hawaii's economy as a result of the decrease in international visitor travel. Although the Governor had granted temporary rent relief to Airports' concessionaires throughout fiscal 2002 and 2003, the major concessionaire was unable to bring the rent due to a current basis.

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After a significant amount of negotiation between Airports and DFS, both parties entered into a Withdrawal and Settlement Agreement ("Agreement") effective August 1, 2003. Under the terms of the Agreement, DFS would bring current the amounts due for the in-bond concession and retail concessions, based on compromised amounts. In addition, the current in-bond concession lease would be terminated early and re-bid in September 2003. DFS would be required to submit the minimum amount of the bid set by Airports.

Certain of the claims of Airports and DFS would be preserved and remain fully assertable, subject to the terms of the Agreement, until certain conditions are met.

DFS was the only bidder on the new in-bond concession and was awarded the contract on September 29, 2003.

### ***Harbors – Aloha Tower Complex Development***

The Aloha Tower Development Corporation (ATDC) is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, Harbors entered into a lease with the ATDC transferring to the ATDC portions of the Aloha Tower complex. The ATDC is required annually to reimburse Harbors for any losses in revenues during the term of the lease caused by any action of the ATDC or the developer and to provide replacement facilities for maritime activities at no cost to Harbors.

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer and entered into a capital improvements, maintenance, operations and securities agreement (Operations Agreement) with the developer and Harbors. Harbors continues to operate the harbor facilities at Piers 8, 9 and 10. The lease between the ATDC and the developer requires the developer to construct, at the developer's cost, various facilities as designated in the developer's proposal and to reimburse Harbors for all losses in revenues and increased expenses which may be incurred by Harbors. The ATDC and the developer have agreed to offset reimbursements due to Harbors for losses in revenues during the construction period, with certain work performed by the developer to repair the structure of Piers 8 through 11, the cost of which would otherwise be incurred by Harbors. The developer is entitled to offset the cost of repairs, not to exceed \$1.1 million, against its obligation to reimburse Harbors for losses in revenues. The first phase of the Aloha Tower complex development has been completed.

The loss in revenues for fiscal 2003 amounted to \$1,726,011, and has been included in Harbors' rental revenues. As of June 30, 2003, the amount due to Harbors was \$6,287,367.

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### *Harbors – Leasing Operations*

Harbors leases land, wharf, and building spaces under month-to-month revocable permits and long-term leases. The long-term leases expire during various years through fiscal 2058. Those leases generally call for rental increases every five to ten years based on independent appraisals of the fair rental value of the leased property.

Minimum future rentals to be received under direct financing leases as of June 30, 2003 consisted of the following (amounts expressed in thousands):

	Enterprise Funds		
	Airports	Harbors	Total
Fiscal year:			
2004	\$ 3,510	\$ 949	\$ 4,459
2005	3,601	949	4,550
2006	3,477	949	4,426
2007	3,432	949	4,381
2008	3,391	949	4,340
Thereafter	62,744	20,926	83,670
	<u>\$ 80,155</u>	<u>\$ 25,671</u>	<u>\$ 105,826</u>

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Enterprise Funds as of June 30, 2003 (amounts expressed in thousands):

	Enterprise Funds		
	Airports	Harbors	Total
Fiscal year:			
2004	\$ 52,349	\$ 8,977	\$ 61,326
2005	62,462	9,020	71,482
2006	56,451	8,662	65,113
2007	12,736	8,105	20,841
2008	12,146	7,845	19,991
	<u>\$ 196,144</u>	<u>\$ 42,609</u>	<u>\$ 238,753</u>

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### C. Net Investment in Direct Financing Lease

Certain leases of state-owned special facilities to parties engaged in airline and maritime operations are accounted for as direct financing leases. At June 30, 2003, net direct financing leases consisted of the following (amounts expressed in thousands):

	Enterprise Funds		
	Airports	Harbors	Total
Total minimum lease payments receivable	\$ 80,155	\$ 25,671	\$ 105,826
Estimated unguaranteed residual value	—	3,600	3,600
Less amount representing interest	(42,900)	(10,503)	(53,403)
	37,255	18,768	56,023
Cash with trustee and other	3,863	—	3,863
	\$ 41,118	\$ 18,768	\$ 59,886

## (11) RETIREMENT BENEFITS

### A. Plan Description

All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the ERS, a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively.

Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

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### **B. Funding Policy**

Most covered employees of the contributory option are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 27 years from June 30, 2002.

The State's contribution requirements as of June 30, 2003, 2002, and 2001 were approximately \$158,622,000, \$113,984,000, and \$7,690,000, respectively. The State contributed 100% of its required contributions for those years. Changes in salary growth assumptions and investment earnings pursuant to Act 100, SLH of 1999, decreased the June 30, 2002 and 2001 required contributions. Act 233, SLH of 2002, increased the 2003 contribution by providing a one-time lump-sum pensioner bonus to retirees who were 70 years and older with at least 20 years of credited service as of June 30, 2002. Also Act 284, SLH of 2001, provided an increase in the pension benefits effective 2003 to retirees with military service. Covered payroll for the fiscal year ended June 30, 2003 was approximately \$1,972,441,000.

### **C. Post-Retirement Health Care and Life Insurance Benefits**

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

There are currently approximately 23,300 state retirees receiving such benefits. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis. During fiscal 2003, expenditures of \$127,827,000 were recognized for post-retirement health care and life insurance benefits, approximately \$33,630,125 of which is attributable to the Component Units.

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Effective July 1, 2003, the Hawaii Employer-Union Health Benefit Trust Fund (EUTF) replaced the Hawaii Public Employees Health Fund under Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees, and their dependents.

### (12) COMMITMENTS AND CONTINGENCIES

#### A. Commitments

##### *General Obligation Bonds*

The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see note 5). At June 30, 2003, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:		
Economic Development	\$	280,137
Highways		106,235
Natural Resources		9,050
Agriculture		8,592
All Other		7,621
Administrative Support		1,738
	\$	<u>413,373</u>

##### *Accumulated Sick Leave*

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2003, accumulated sick leave approximately \$1,151,337,000.

##### *Intergovernmental Expenditures*

In accordance with Act 250, SLH of 2002, 45% of revenues generated by the transient accommodations tax are to be distributed to the counties.

##### *Guarantees of Indebtedness*

The State is authorized to guarantee indebtedness of others at a maximum amount of approximately \$191,000,000 for aquacultural loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Unit – HCDCH. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2003.



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### **B. Proprietary Fund Type – Enterprise Funds**

#### ***Construction and Service Contracts***

At June 30, 2003, the Enterprise Funds had commitments of approximately \$131,340,000 for construction and service contracts.

### **C. Contingencies**

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2003, 2002, and 2001 approximated \$14,000,000, \$4,200,000, and \$6,811,000, respectively.

#### ***Tobacco Settlement***

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately \$1.3 billion over a 25-year period. Through June 30, 2003, the State has received approximately \$43,552,000. The State is to receive proceeds from this settlement in January and April of each year through 2003 and thereafter on April 15 of each year.

#### ***Office of Hawaiian Affairs***

In 1898, the Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the ceded lands) back to the State to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the ceded lands were to be held as a public trust for native Hawaiians and the general public, and to establish OHA to administer and manage the proceeds and income derived from a pro rata portion of the ceded lands for native Hawaiians.

In 1979, the State Legislature adopted HRS Chapter 10, which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the ceded lands for the betterment of the conditions of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987), the Hawaii Supreme Court concluded that HRS Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the State Legislature adopted Act 304, SLH of 1990, which (1) defined "public land trust" and "revenue," (2) specified that 20% of the "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of the conditions of native Hawaiians, and (3) established a process for OHA and the Director of Finance to jointly determine

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the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period from June 16, 1980 through June 30, 1991. Since fiscal 1992, the State, through its departments and agencies, has been paying 20% of "revenue" to OHA on a quarterly basis.

In 1993, the State Legislature enacted Act 35, SLH of 1993, appropriating \$136.5 million to pay the amount determined to be OHA's claims, with interest, for the period from June 16, 1980 through June 30, 1991.

In January 1994, OHA and its Board of Trustees (the Plaintiffs) filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (First Circuit) ("*OHA I*")), claiming that the amount paid to OHA was inadequate and alleging that the State had failed to properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs seek an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of monies it receives from (1) Airports' in-bond duty-free airport concession (including receipts from the concessionaire's off-airport sales operations); (2) the state-owned and operated Hilo Medical Center; (3) the State's public rental housing projects and affordable housing developments; and (4) interest income, including investment earnings (collectively, the Sources). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the Circuit Court of the First Circuit of the State of Hawaii (First Circuit Court) filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the First Circuit Court filed an order granting the Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the monies it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting the Plaintiffs' four motions for partial summary judgment was granted, and all proceedings in the suit have been stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw., 388 (2001) that Act 304 was effectively repealed by its own terms, and that there were no judicially manageable standards by which to determine whether OHA was entitled to the revenue it sought from the Sources because the repeal of Act 304 revived the law which the Hawaii Supreme Court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the ceded lands. See *OHA v. State*, 96 Haw., 388 (2002). The Hawaii Supreme Court dismissed the case for lack of justiciability noting that it was up to the State Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the ceded lands under the State Constitution. The State Legislature took no action during the 2002 legislative session, and the State's payments of 20% of "revenue" were discontinued as of the first quarter in fiscal 2002.

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The State Legislature took no action during the 2002 and 2003 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the ceded lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses, and permits indisputably paid for the use of improved or unimproved parcels of ceded lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or agency. During the 2003 legislative session, the State Legislature appropriated monies from the various funds into which the ceded lands receipts had been deposited after the decision in *OHA I* was issued and agencies ceased making payments to OHA, and directed the agencies to pay them to OHA.

OHA continues to pursue its claims for a portion of the revenues from the Sources and other ceded lands that it made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA, et al. v. State of Hawaii, et al.*, Civil No. 03-1-1505-07 ("*OHA II*"). There follows additional background information pertinent to *OHA II*. In September 1996, the Office of the Inspector General of the U.S. Department of Transportation ("DOT") issued a report (the "IG Report") concluding that from 1992 to 1995, the Hawaii Department of Transportation's payment to OHA of \$28.2 million was a "diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Hawaii Attorney General disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were simply an operating cost of the airports, and thus not a diversion of airport revenues in violation of federal law. In April 1997, the Acting Administrator of the FAA concurred in writing (the "FAA Memorandum"), with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the First Circuit Court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Hawaii Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position, set forth in the IG Report, changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In October 1997, Public Law 105-66, 1997 HR 2169 (the "Forgiveness Act") was enacted into federal law. The Forgiveness Act essentially provides that in exchange for there being no further payments of airport revenues for claims related to ceded lands, any such payments received prior to April 1, 1996 need not be repaid. The Hawaii Attorney General submitted the Forgiveness Act to the Hawaii Supreme Court ("Court") in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties submit supplemental briefs to address whether the Forgiveness Act affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro-rata share of airport monies violated federal law, and that there was no live, ripe controversy regarding those payments because the Forgiveness Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* have now sued the State for alleged breaches of fiduciary duties as purported trustee of the ceded lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5, and 6 of the Hawaii Constitution, alleged violations of the Contract Clause of the U.S. Constitution, and alleged misrepresentation and non-

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disclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior \$28.2 million payments in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors, and omissions" were substantial factors that resulted in the passing of the Forgiveness Act and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also seek declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and seeks appointment of an independent trustee to temporarily replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from the sources other than airport revenues.

The State is currently unable to predict with reasonable certainty the magnitude of its potential liability for such claims, if any. Resolution of all of OHA's claims could have a material adverse effect on the State's financial condition.

In a second lawsuit, OHA filed a complaint for declaratory and injunctive relief on November 4, 1994 (*OHA v. Housing Finance and Development Corporation, et al.*, Civil No. 94-4207-11 (First Circuit)) to enjoin the State from alienating any ceded lands or, alternatively, to preclude the extinguishing of any rights native Hawaiians may have in ceded lands which may be alienated.

Alternatively, OHA sought a declaration that the amounts the Housing Finance and Development Corporation (the "Corporation") and the State paid to OHA for ceded lands the Corporation planned to use to develop and sell housing units pursuant to Act 318, SLH of 1992, were insufficient. Act 318 established a separate process for valuing the ceded lands the Corporation used for its two housing developments at Kealakeke and Lahaina, and quantifying the amounts of income and proceeds from the ceded lands that the Corporation and State were required to pay OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell ceded lands, denied the declaratory ruling that the sale of ceded lands did not directly or indirectly release or limit Hawaiians' claim to those lands which the Plaintiff requested, and ordered that judgment be entered in the State's and Corporation's favor as to Counts I, II, and III of the Amended Complaint. The Plaintiffs moved for and were granted leave to file immediate appeals

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from the trial court's ruling to the Hawaiian Supreme Court. Those appeals are now pending. Trial to determine the sufficiency of the proceeds paid to OHA by the Corporation and the State from the sale of particular parcels of ceded lands at issue has not been scheduled.

In a third lawsuit, OHA filed suit against the Hawaii Housing Authority (the HHA), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (First Circuit)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands which were transferred to the HHA for its use to develop, construct, and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA v. State of Hawaii*, Civil No. 94-0205-01 (First Circuit). The repeal and revival of the pre-Yamasaki law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA v. State* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

At the present time, the State is not able to estimate with any reasonable certainty the magnitude of the potential liability as it may be determined either by judicial rulings (either at trial or on appeal) or by legislation enacted as a result of the process established in Act 329. Accordingly, no estimate of loss has been made in the accompanying basic financial statements. However, an ultimate decision against the State could have a material adverse effect on the financial position of the State.

### ***Department of Education and Department of Health***

*Felix v. Lingle*, Civil No. 93-00367 (U.S. District Court for the District of Hawaii). This case involves the State's responsibility under federal law to provide mental health services as a related service to children and adolescents who need such services to benefit from special education. After the U.S. District Court granted partial summary judgment as to liability in the Plaintiffs' favor, the parties entered into a consent decree which allowed the State to plan and implement a new system of care. Under the consent decree and the supervision of the U.S. District Court, the State has been implementing a plan to improve the provision of such services. Because of the failure of the State to timely complete the implementation plan approved by the U.S. District Court, the State was held in contempt of court and the consent decree was extended to June 30, 2001 for completion of infrastructure to support the delivery of services and December 31, 2001 for substantial compliance with the consent decree.

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The State avoided the U.S. District Court's imposition of a federal court-appointed receiver by meeting the court's revised benchmarks and conditions which the State was ordered to fulfill. At a hearing held on November 30, 2001, the U.S. District Court determined that the State had made significant progress in meeting the terms of the consent decree and, therefore, that a federal receiver was not necessary. On September 10, 2002, the court ruled that the State was in substantial compliance with the consent decree as of June 30, 2002. However, the court ordered the federal court supervision to continue until December 31, 2003. During this period, the level and quality of services provided by the State will be monitored to determine whether the State can sustain the levels of performance previously demonstrated.

### ***Department of Hawaiian Home Lands***

#### *Hawaiian Home Lands Trust Fund*

Act 14, Special SLH of 1995, was approved by the Governor on June 29, 1995 and obligates the State to make 20 annual deposits of \$30,000,000, or their discounted value equivalent, into the Hawaiian Home Lands Trust Fund beginning in the fiscal year ended June 30, 1996. The primary purpose of Act 14 is to resolve controversies and claims related to the Hawaiian Home Lands trust which arose between August 31, 1959 and July 1, 1988. Act 14 also established in the State Treasury a trust fund known as the Hawaiian Home Lands Trust Fund.

The State transferred \$30,000,000 to the Hawaiian Home Lands Trust Fund during the fiscal year ended June 30, 2003.

As of June 30, 2003, the State has transferred approximately \$240,000,000 to the Hawaiian Home Lands Trust Fund. The State's remaining \$360,000,000 obligation discounted at 6% and assuming annual payments of \$30,000,000 over the remaining term of the obligation is approximately \$251,500,000. Such amount has been included in claims and judgments payable in the accompanying statement of activities.

#### *Transfer of Property*

Act 95, SLH of 1996, authorizes the transfer of certain parcels of land to the DHHL. The properties were conveyed in fiscal 1997 and the allocated costs were charged against contributed capital. The estimated future costs of those parcels will be recognized as contributions returned to the State and others when costs are incurred. The estimated allocated project costs and allocated costs incurred to date of those parcels of land were approximately \$22,278,000 and \$11,927,000, respectively.

#### *Individual Claims*

In 1991, the State Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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The process was a three-step process which (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the Panel) to provide the State Legislature with non-binding findings and advisory opinions for each claim; (2) provided for the State Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the State Legislature deemed appropriate by October 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999 if they were not satisfied with the Panel's findings and advisory opinions, or the State Legislature's response to the Panel's recommendations.

Legislation to allow the Panel and the State Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the State Legislature, but vetoed by the Governor in the 1999 legislative session, and the Panel unseated on December 31, 1999. As of September 30, 1999, claims from 1,376 claimants had not been reviewed by the Panel, and all but the claims of two claimants had not been acted upon by the State Legislature. In 1997, the State Legislature declared it to be its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it.

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS Chapter 674. *Kalima, et al. v. Cayetano*, Civil No. 99-00671HG/LEK. A motion for preliminary injunction was heard on November 15, 1999 and denied as moot on September 28, 2000. By stipulation filed on November 13, 2000, the action was dismissed without prejudice.

On December 29, 1999, the same three claimants filed a class motion lawsuit in the First Circuit Court for declaratory and injunctive relief and for general, special and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661. *Kalima, et al. v. State of Hawaii, et al.*, Civil No. 99-4771-12VSM (First Circuit Court) ("*Kalima I*"). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. *Aguiar v. State of Hawaii, et al.*, Civil No. 99-612 (Third Circuit Court); *Silva v. State of Hawaii, et al.*, Civil No. 99-4775-12 (First Circuit Court); *Wilhelm v. State of Hawaii, et al.*, Civil No. 99-4774-12 (First Circuit Court); *Williamson v. State of Hawaii, et al.*, Civil No. 99-4773-12 (First Circuit Court); *Hanohano v. State of Hawaii, et al.*, Civil No. 99-4775-12 (First Circuit Court). The Plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Plaintiff Hanahano has since stipulated to the dismissal of her action without prejudice.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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On March 30, 2000, the three named-plaintiffs in *Kalima I* filed a second class action lawsuit in the First Circuit Court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and the State Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674. *Kalima, et al. v. State of Hawaii, et al.*, Civil No. 00-1-1041-03 (First Circuit Court) ("*Kalima II*"). All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II*.

On August 30, 2000, the First Circuit Court entered an order in *Kalima I* granting Plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denying Defendants' motion for judgment on the pleadings. Essentially, the First Circuit Court rejected Defendants' sovereign immunity, lack of subject matter jurisdiction, and no-cause of action defenses, and ruled that the Plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS Chapters 674 and 661.

The First Circuit Court allowed the State to take an interlocutory appeal from the August 30, 2000 order to the Hawaii Supreme Court, and entered an order staying all proceedings in *Kalima I* pending the Hawaii Supreme Court's disposition of the appeal. By an order entered on September 20, 2001, however, that appeal was dismissed by the Hawaii Supreme Court for lack of appellate jurisdiction. Since then, the State has secured a certification of finality for the August 30, 2000 order from the court, and filed another notice of appeal of the orders so that the questions of law the court decided can be reviewed by the Hawaii Supreme Court prior to trial. All briefs have been filed and the parties are awaiting oral argument or a decision from the court in this second appeal. All proceedings in *Kalima I* in the court remain stayed, and no trial date has been set in either *Kalima I* or any of the other individual claims cases.

At the present time, the State is not able to estimate with any reasonable certainty the magnitude of the potential liability related to these individual claims cases. Accordingly, no estimate of loss has been made in the accompanying basic financial statements. However, an ultimate decision against the State could have a material adverse effect on the financial position of the State.



Notes to Basic Financial Statements

June 30, 2003

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**(13) RISK MANAGEMENT**

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, establishes accounting and financial reporting standards for risk financing and insurance related activities of state governmental entities and requires the recordation of a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

**A. Property Insurance**

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible is \$250,000 per occurrence. The deductible for windstorm coverage is 3% of loss subject to a \$250,000 per occurrence minimum. This policy includes earthquake, named hurricane, and flood coverage with a deductible of 3% of loss subject to a \$250,000 minimum and a \$10,000,000 annual aggregate. The limit of loss per occurrence is \$25,000,000. This policy also includes terrorism coverage whose limit of loss per occurrence is \$10,000,000 with a deductible of \$250,000 per occurrence.

The State also has a crime insurance policy for various types of coverages with a minimum limit of loss of \$1,000,000 per occurrence and a maximum limit of \$10,000,000 with \$250,000 deductibles. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

**B. General Liability (including Torts)**

Claims under \$10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a \$3,000,000 deductible per occurrence. The annual aggregate per occurrence is \$7,000,000.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

**C. Medical Insurance**

The State's community hospitals included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage, and employee benefits. This policy covers losses up to a limit of \$20,000,000 per occurrence and in the aggregate.

**D. Self-Insured Risks**

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

### E. Reserve for Losses and Loss Adjustment Costs

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2003 and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net assets as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30 (amounts expressed in thousands):

	<b>2003</b>	<b>2002</b>
Unpaid losses and loss adjustment costs at the beginning of the fiscal year	\$ 98,400	\$ 84,400
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	25,800	30,200
Increase (decrease) in provision for insured events of prior fiscal years	600	11,800
Total incurred losses and loss adjustment costs	26,400	42,000
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(3,000)	(4,500)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(19,700)	(23,500)
Total payments	(22,700)	(28,000)
Unpaid losses and loss adjustment costs at the end of the fiscal year	\$ 102,100	\$ 98,400

# STATE OF HAWAII

## Notes to Basic Financial Statements

June 30, 2003

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### **(14) SUBSEQUENT EVENTS**

#### **A Revenue Bond Issue**

On August 20, 2003, Airports issued \$80,900,000 of Airports System Revenue Bonds, Refunding Series of 2003. The bonds bear interest at the initial rate of 2% per annum to June 30, 2004. Thereafter, the interest rate will be converted to a weekly rate, fixed rate, or extended rate, at the option of Airports. The bonds are subject to redemption at 100% of the principal amount on July 1, 2004 and on each July 1 thereafter to 2013. Proceeds of the bonds were used to redeem \$80,310,000 of the Refunding Series of 1993 revenue bonds at a redemption price of 102%, on or about September 25, 2003.

#### **B. General Obligation Bond Issue**

On August 21, 2003, the State issued \$225,000,000, of general obligation bonds, Series DA, and \$188,650,000 and \$23,730,000 of general obligation refunding bonds, Series DB and Series DC, respectively. The Series DA and Series DB bonds each bear interest ranging from 2.80% to 5.25%, whereas the Series DC bonds bear interest at 3.00%. The Series DA and Series DB bonds each begin to mature on September 1, 2008, and the Series DC bonds mature on September 1, 2005. Bonds were issued, in the case of the Series DA bonds, to finance certain expenditures and public improvement projects, including a payment in connection with the Hawaiian Home Lands Settlement. The Series DB and Series DC bonds were issued for the purpose of redeeming certain of the State's general obligation bonds on various dates at specified redemption prices.

***SUPPLEMENTARY INFORMATION***

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## NONMAJOR GOVERNMENTAL FUNDS

### Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. Certain Special Revenue Funds are presented separately in the accompanying combining financial statements, with the remainder grouped as a single entity. The Special Revenue Funds are as follows:

**Highways** – accounts for programs related to maintaining and operating land transportation facilities.

**Natural Resources** – accounts for programs related to the conservation, development and utilization of agriculture, aquaculture, water, land, and other natural resources of the State.

**Wastewater** – accounts for programs related to the water sanitation of the State.

**Health** – accounts for programs related to mental health, nutrition services, communicable disease, and for other public health services.

**Med-Quest** – accounts for the programs related to the health care programs of the State.

**Human Services** – accounts for social service programs which include public welfare, eligibility and disability determination, and housing assistance.

**Education** – accounts for programs related to instructional education, school food services, and student driver education.

**Economic Development** – accounts for programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources.

**Employment** – accounts for programs related to employment and training, disability compensation, placement services, and occupational safety and health.

**Regulatory** – accounts for programs related to consumer protection, business registration, and cable television regulation.

**Hawaiian Programs** – accounts for programs related to the betterment of the conditions of native Hawaiians.

**Administrative Support** – accounts for programs of certain administrative agencies.

**All Other** – accounts for programs related to water recreation, inmate stores, and driver training and education.

### Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general obligation bonds serviced by the General Fund and general obligation bonds and revenue bonds serviced by the Special Revenue Funds.

# STATE OF HAWAII

## Nonmajor Governmental Funds Combining Balance Sheet

June 30, 2003

(Amounts in thousands)

<u>ASSETS</u>	<u>Special Revenue Funds</u>						
	<u>Highways</u>	<u>Natural Resources</u>	<u>Wastewater</u>	<u>Health</u>	<u>Med-Quest</u>	<u>Human Services</u>	<u>Education</u>
Cash and short-term investments	\$ 7,776	\$ 43,825	\$ 13,113	\$ 17,370	\$ 7,900	\$ 14,373	\$ 56,479
Receivables:							
Taxes	—	—	—	—	—	—	—
Notes and loans, net	—	21,932	173,680	—	—	—	—
Federal government	—	—	—	—	—	23,700	—
Other	6,408	—	—	—	—	—	—
Due from other funds	—	—	395	—	—	—	—
Investments	221,544	39,966	87,099	54,720	—	6,617	31,559
Other assets	—	1	—	—	—	—	—
Total Assets	<u>\$ 235,728</u>	<u>\$ 105,724</u>	<u>\$ 274,287</u>	<u>\$ 72,090</u>	<u>\$ 7,900</u>	<u>\$ 44,690</u>	<u>\$ 88,038</u>
<u>LIABILITIES AND FUND BALANCES</u>							
<b>Liabilities:</b>							
Vouchers and contracts payable	\$ 1,230	\$ 1,201	\$ 10	\$ 6,502	\$ 28	\$ 918	\$ 3,009
Other accrued liabilities	254	522	49	1,188	—	87	1,439
Due to other funds	—	—	—	395	—	23,700	—
Payable from restricted assets – matured bonds and interest payable	—	—	—	—	—	—	—
Total Liabilities	<u>1,484</u>	<u>1,723</u>	<u>59</u>	<u>8,085</u>	<u>28</u>	<u>24,705</u>	<u>4,448</u>
<b>Fund Balances:</b>							
Reserved for:							
Continuing appropriations	148,346	17,815	5,388	40,824	13,427	23,405	18,833
Receivables and advances	—	21,932	173,679	—	—	—	—
Bond redemption and other	—	33,630	—	—	—	—	—
Unreserved for Special Revenue Funds:							
Designated for future expenditures	5,545	21,847	137,553	—	—	—	2,547
Undesignated	80,353	8,777	(42,392)	23,181	(5,555)	(3,420)	62,210
Total Fund Balances	<u>234,244</u>	<u>104,001</u>	<u>274,228</u>	<u>64,005</u>	<u>7,872</u>	<u>19,985</u>	<u>83,590</u>
Total Liabilities and Fund Balances	<u>\$ 235,728</u>	<u>\$ 105,724</u>	<u>\$ 274,287</u>	<u>\$ 72,090</u>	<u>\$ 7,900</u>	<u>\$ 44,690</u>	<u>\$ 88,038</u>

See accompanying independent auditors' report.

Special Revenue Funds							Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
Economic Development	Employment	Regulatory	Hawaiian Programs	Administrative Support	All Other	Total			
\$ 13,038	\$ 8,715	\$ 5,112	\$ 26,317	\$ 21,210	\$ 7,774	243,002	\$ 1,607		\$ 244,609
5,600	—	—	—	—	—	5,600	—		5,600
7,809	—	—	48,795	—	—	252,216	—		252,216
—	—	—	—	—	—	23,700	—		23,700
—	—	—	—	—	—	6,408	—		6,408
—	—	—	—	—	—	395	148	(395)	148
69,661	33,102	32,358	31,649	83,527	8,205	700,007	—		700,007
—	—	—	—	—	—	1	—		1
\$ 96,108	\$ 41,817	\$ 37,470	\$ 106,761	\$ 104,737	\$ 15,979	\$ 1,231,329	\$ 1,755	\$ (395)	\$ 1,232,689
\$ 6,726	\$ 1,390	\$ 98	\$ 56	\$ 1,405	\$ 2,382	\$ 24,955	\$ —		\$ 24,955
244	1,033	766	145	856	400	6,983	—		6,983
—	—	—	—	—	—	24,095	—	(395)	23,700
—	—	—	—	—	—	—	1,607		1,607
6,970	2,423	864	201	2,261	2,782	56,033	1,607	(395)	57,245
13,287	1,189	3,663	3,274	20,432	8,144	318,027	148		318,175
7,809	—	—	48,796	—	—	252,216	—		252,216
—	—	—	—	—	—	33,630	—		33,630
9,240	—	—	450	35,739	6,453	219,374	—		219,374
58,802	38,205	32,943	54,040	46,305	(1,400)	352,049	—		352,049
89,138	39,394	36,606	106,560	102,476	13,197	1,175,296	148	—	1,175,444
\$ 96,108	\$ 41,817	\$ 37,470	\$ 106,761	\$ 104,737	\$ 15,979	\$ 1,231,329	\$ 1,755	\$ (395)	\$ 1,232,689



# STATE OF HAWAII

## Nonmajor Governmental Funds Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Wastewater	Health	Med-Quest	Human Services	Education
<b>Revenues:</b>							
Taxes:							
General excise tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Transient accommodations tax	—	1,000	—	—	—	—	—
Tobacco and liquor taxes	—	—	—	—	—	—	—
Liquid fuel tax	75,506	227	—	—	—	—	—
Tax on premiums of insurance companies	—	—	—	—	—	—	—
Vehicle weight and registration tax	46,259	—	—	—	—	—	—
Rental motor/tour vehicle surcharge	39,472	—	—	—	—	—	—
Others	—	2,955	—	1,562	—	—	—
Total Taxes	161,237	4,182	—	1,562	—	—	—
Interest and investment income	12,173	4,324	7,310	2,140	14	147	656
Charges for current services	2,049	15,690	1,698	14,707	83	328	25,288
Intergovernmental	98,148	14,290	7,211	83,472	401,033	437,124	181,247
Rentals	1	1,742	—	—	—	—	36
Fines, forfeitures, and penalties	1,022	74	—	358	—	—	—
Licenses and fees	1,817	523	—	718	—	132	630
Revenues from private sources	—	4	—	43,524	—	—	593
Other	9,546	11,125	4,350	86	19,450	911	4,392
Total Revenues	285,993	51,954	20,569	146,567	420,580	438,642	212,842
<b>Expenditures:</b>							
Current:							
General government	—	788	—	—	—	—	—
Public safety	—	1,296	—	—	—	—	—
Highways	136,134	—	—	—	—	—	—
Conservation of natural resources	—	33,329	—	—	—	—	—
Health	—	383	15,614	124,833	—	—	—
Welfare	—	—	—	—	412,698	466,398	—
Lower education	—	—	—	—	—	—	186,887
Other education	—	—	—	—	—	11,073	—
Culture and recreation	—	5,255	—	—	—	—	2,292
Urban redevelopment and housing	—	—	—	—	—	—	—
Economic development and assistance	—	3,450	—	—	—	—	—
Debt service	—	—	—	—	—	—	—
Total Expenditures	136,134	44,501	15,614	124,833	412,698	477,471	189,179
Excess (Deficiency) of Revenues over Expenditures	149,859	7,453	4,955	21,734	7,882	(38,829)	23,663
<b>Other Financing Sources (Uses):</b>							
Proceeds from revenue bonds	—	—	—	—	—	—	—
Payments for revenue bonds	—	—	—	—	—	—	—
Transfers in	268	2,342	3,645	6,458	10,996	38,584	1,214
Transfers out	(131,270)	(28,950)	—	(27,140)	(18,944)	(208)	(263)
Other	—	2,499	9,133	—	—	—	—
Total Other Financing Sources (Uses)	(131,002)	(24,109)	12,778	(20,682)	(7,948)	38,376	951
Net Change in Fund Balances	18,857	(16,656)	17,733	1,052	(66)	(453)	24,614
<b>Fund Balances – Beginning</b>	215,387	120,657	256,495	62,953	7,938	20,438	58,976
<b>Fund Balances – Ending</b>	\$ 234,244	\$ 104,001	\$ 274,228	\$ 64,005	\$ 7,872	\$ 19,985	\$ 83,590

See accompanying independent auditors' report.

Special Revenue Funds							Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
Economic Development	Employment	Regulatory	Hawaiian Programs	Administrative Support	All Other	Total			
\$ —	\$ —	\$ —	\$ —	\$ 8,570	\$ —	\$ 8,570	\$ —	\$ —	\$ 8,570
90,252	—	—	—	—	—	91,252	—	—	91,252
—	—	—	—	1,024	—	1,024	—	—	1,024
—	—	—	—	—	1,441	77,174	—	—	77,174
—	—	1,095	—	—	—	1,095	—	—	1,095
—	—	—	—	—	—	46,259	—	—	46,259
—	—	—	—	—	—	39,472	—	—	39,472
—	765	2,000	—	—	—	7,282	—	—	7,282
90,252	765	3,095	—	9,594	1,441	272,128	—	—	272,128
3,085	1,390	1,890	1,083	1,253	457	35,922	—	—	35,922
4,938	21,716	19,545	4	36,074	12,878	154,998	—	—	154,998
9,801	57,949	—	96	23,304	13,073	1,326,748	—	—	1,326,748
8,642	—	—	1,370	5,786	1,027	18,604	—	—	18,604
—	1,280	1,678	—	321	1,772	6,505	—	—	6,505
—	—	9,867	—	11,760	403	25,850	—	—	25,850
421	—	—	—	140	—	44,682	—	—	44,682
1,788	1,188	15	6,978	5,217	4,715	69,761	—	—	69,761
118,927	84,288	36,090	9,531	93,449	35,766	1,955,198	—	—	1,955,198
—	—	—	—	40,051	6,708	47,547	—	—	47,547
—	2,971	26,848	—	7,871	21,853	60,839	—	—	60,839
—	—	—	—	48	—	136,182	—	—	136,182
—	—	—	—	26	—	33,355	—	—	33,355
—	—	—	—	—	—	140,830	—	—	140,830
—	—	—	—	9,718	537	889,351	—	—	889,351
—	—	—	—	1,679	—	188,566	—	—	188,566
—	—	—	—	(14)	—	11,059	—	—	11,059
—	—	—	—	11,354	9,220	28,121	—	—	28,121
—	—	—	8,862	—	—	8,862	—	—	8,862
94,036	77,063	—	—	271	—	174,820	—	—	174,820
—	—	—	—	—	—	—	394,323	—	394,323
94,036	80,034	26,848	8,862	71,004	38,318	1,719,532	394,323	—	2,113,855
24,891	4,254	9,242	669	22,445	(2,552)	235,666	(394,323)	—	(158,657)
—	—	—	—	—	—	—	47,791	—	47,791
—	—	—	—	—	—	—	(47,791)	—	(47,791)
2,311	2	2,489	—	19,609	1,590	89,508	441,661	(176,781)	354,388
(33,733)	(2,680)	(49,344)	(1,646)	(48,465)	(5,363)	(348,006)	(47,269)	176,781	(218,494)
(1,641)	—	—	169	—	—	10,160	—	—	10,160
(33,063)	(2,678)	(46,855)	(1,477)	(28,856)	(3,773)	(248,338)	394,392	—	146,054
(8,172)	1,576	(37,613)	(808)	(6,411)	(6,325)	(12,672)	69	—	(12,603)
97,310	37,818	74,219	107,368	108,887	19,522	1,187,968	79	—	1,188,047
\$ 89,138	\$ 39,394	\$ 36,606	\$ 106,560	\$ 102,476	\$ 13,197	\$ 1,175,296	\$ 148	\$ —	\$ 1,175,444

# STATE OF HAWAII

## Nonmajor Special Revenue Funds Combining Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

		Highways	
	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
<b>Revenues:</b>			
Taxes:			
Liquid fuel tax:			
Highways	\$ 70,706	\$ 75,506	\$ 4,800
Boating	—	—	—
Vehicle registration fee tax	16,229	19,037	2,808
State vehicle weight tax	22,476	27,222	4,746
Rental/tour vehicle surcharge tax	36,319	39,472	3,153
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Total Taxes	145,730	161,237	15,507
Non-taxes:			
Interest and investment income	13,900	12,173	(1,727)
Charges for current services	1,025	2,050	1,025
Intergovernmental	122,001	98,148	(23,853)
Rentals	4	1	(3)
Fines, forfeitures, and penalties	875	1,021	146
Licenses and fees	1,638	1,816	178
Revenues from private sources	—	—	—
Other	—	33,037	33,037
Total Non-taxes	139,443	148,246	8,803
Total Revenues	285,173	309,483	24,310
<b>Expenditures:</b>			
General government	—	—	—
Public safety	—	—	—
Highways	212,276	160,848	51,428
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	—	—	—
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	—	—	—
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	212,276	160,848	51,428
Excess (Deficiency) of Revenues over Expenditures	\$ 72,897	\$ 148,635	\$ 75,738

See accompanying independent auditors' report.

Natural Resources			Wastewater		
Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
\$ 250	\$ 227	\$ (23)	\$ —	\$ —	\$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
2,686	2,954	268	—	—	—
—	1,000	1,000	—	—	—
2,936	4,181	1,245	—	—	—
2,582	3,312	730	7,867	7,310	(557)
14,913	15,690	777	1,445	1,697	252
8,228	14,290	6,062	11,942	7,211	(4,731)
1,971	1,742	(229)	—	—	—
44	74	30	—	—	—
605	523	(82)	—	—	—
—	4	4	—	—	—
3,991	3,433	(558)	8,245	13,807	5,562
32,334	39,068	6,734	29,499	30,025	526
35,270	43,249	7,979	29,499	30,025	526
555	487	68	—	—	—
1,849	1,177	672	—	—	—
—	—	—	—	—	—
57,666	33,786	23,880	—	—	—
500	431	69	95,646	16,630	79,016
—	—	—	—	—	—
—	—	—	—	—	—
7,933	5,722	2,211	—	—	—
—	—	—	—	—	—
1,472	1,185	287	—	—	—
—	—	—	—	—	—
69,975	42,788	27,187	95,646	16,630	79,016
\$ (34,705)	\$ 461	\$ 35,166	\$ (66,147)	\$ 13,395	\$ 79,542

# STATE OF HAWAII

## Nonmajor Special Revenue Funds Combining Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) (Cont'd)

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

		Health	
	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
<b>Revenues:</b>			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	—	—	—
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	1,800	1,562	(238)
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Total Taxes	1,800	1,562	(238)
Non-taxes:			
Interest and investment income	—	2,140	2,140
Charges for current services	10,266	14,707	4,441
Intergovernmental	82,655	83,472	817
Rentals	—	—	—
Fines, forfeitures, and penalties	637	358	(279)
Licenses and fees	452	718	266
Revenues from private sources	23,992	43,523	19,531
Other	77	116	39
Total Non-taxes	118,079	145,034	26,955
Total Revenues	119,879	146,596	26,717
<b>Expenditures:</b>			
General government	—	—	—
Public safety	—	—	—
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	209,154	162,008	47,146
Welfare	—	—	—
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	—	—	—
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	209,154	162,008	47,146
Excess (Deficiency) of Revenues over Expenditures	\$ (89,275)	\$ (15,412)	\$ 73,863

See accompanying independent auditors' report.



# STATE OF HAWAII

## Nonmajor Special Revenue Funds

### Combining Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) (Cont'd)

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

	Education		
	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
<b>Revenues:</b>			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	—	—	—
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Total Taxes	—	—	—
Non-taxes:			
Interest and investment income	706	655	(51)
Charges for current services	23,240	25,288	2,048
Intergovernmental	125,570	181,247	55,677
Rentals	—	36	36
Fines, forfeitures, and penalties	—	—	—
Licenses and fees	588	630	42
Revenues from private sources	600	593	(7)
Other	2,943	3,088	145
Total Non-taxes	153,647	211,537	57,890
Total Revenues	153,647	211,537	57,890
<b>Expenditures:</b>			
General government	—	—	—
Public safety	—	—	—
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	—	—	—
Lower education	333,869	188,797	145,072
Other education	—	—	—
Culture and recreation	4,700	1,781	2,919
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	338,569	190,578	147,991
Excess (Deficiency) of Revenues over Expenditures	\$ (184,922)	\$ 20,959	\$ 205,881

See accompanying independent auditors' report.

Economic Development			Employment		
Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	908	765	(143)
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
67,731	91,851	24,120	—	—	—
67,731	91,851	24,120	908	765	(143)
2,972	3,085	113	1,250	1,390	140
4,656	4,938	282	21,020	21,716	696
10,951	9,801	(1,150)	50,049	57,949	7,900
2,676	8,642	5,966	—	—	—
—	—	—	430	1,280	850
—	—	—	—	—	—
100	421	321	—	—	—
1,089	4,099	3,010	6	5,889	5,883
22,444	30,986	8,542	72,755	88,224	15,469
90,175	122,837	32,662	73,663	88,989	15,326
100	—	100	—	—	—
—	—	—	4,015	3,851	164
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
144,176	116,477	27,699	113,292	81,666	31,626
—	—	—	—	—	—
144,276	116,477	27,799	117,307	85,517	31,790
\$ (54,101)	\$ 6,360	\$ 60,461	\$ (43,644)	\$ 3,472	\$ 47,116



# STATE OF HAWAII

## Nonmajor Special Revenue Funds

### Combining Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) (Cont'd)

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

		Regulatory	
	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
<b>Revenues:</b>			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	—	—	—
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	2,000	1,500	(500)
Transient accommodations tax	340	1,095	755
Total Taxes	2,340	2,595	255
Non-taxes:			
Interest and investment income	—	1,890	1,890
Charges for current services	20,286	19,545	(741)
Intergovernmental	—	—	—
Rentals	—	—	—
Fines, forfeitures, and penalties	575	1,678	1,103
Licenses and fees	7,469	9,867	2,398
Revenues from private sources	—	—	—
Other	2,661	2,504	(157)
Total Non-taxes	30,991	35,484	4,493
Total Revenues	33,331	38,079	4,748
<b>Expenditures:</b>			
General government			—
Public safety	36,603	27,253	9,350
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	—	—	—
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	—	—	—
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	36,603	27,253	9,350
Excess (Deficiency) of Revenues over Expenditures	\$ (3,272)	\$ 10,826	\$ 14,098

See accompanying independent auditors' report.

Hawaiian Programs			Administrative Support		
Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	8,570	8,570
—	—	—	900	1,024	124
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	900	9,594	8,694
910	1,083	173	861	1,253	392
1	4	3	30,188	36,074	5,886
—	95	95	19,078	22,964	3,886
6,530	1,370	(5,160)	5,700	5,785	85
—	—	—	367	321	(46)
—	—	—	11,511	11,759	248
—	—	—	350	140	(210)
3,040	6,977	3,937	17,491	520,499	503,008
10,481	9,529	(952)	85,546	598,795	513,249
10,481	9,529	(952)	86,446	608,389	521,943
—	—	—	409,055	375,247	33,808
—	—	—	13,267	8,266	5,001
—	—	—	—	—	—
—	—	—	375	3	372
—	—	—	—	—	—
—	—	—	14,686	9,359	5,327
—	—	—	9,787	5,622	4,165
—	—	—	—	—	—
—	—	—	11,200	9,973	1,227
17,537	12,848	4,689	—	—	—
—	—	—	74	74	—
—	—	—	178,535	171,074	7,461
17,537	12,848	4,689	636,979	579,618	57,361
\$ (7,056)	\$ (3,319)	\$ 3,737	\$ (550,533)	\$ 28,771	\$ 579,304

# STATE OF HAWAII

## Nonmajor Special Revenue Funds Combining Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) (Cont'd)

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

		All Other	
	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
<b>Revenues:</b>			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	1,300	1,441	141
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Total Taxes	1,300	1,441	141
Non-taxes:			
Interest and investment income	329	457	128
Charges for current services	19,591	12,878	(6,713)
Intergovernmental	8,830	13,073	4,243
Rentals	115	1,027	912
Fines, forfeitures, and penalties	2,240	1,773	(467)
Licenses and fees	360	403	43
Revenues from private sources	—	—	—
Other	7,179	6,305	(874)
Total Non-taxes	38,644	35,916	(2,728)
Total Revenues	39,944	37,357	(2,587)
<b>Expenditures:</b>			
General government	9,048	5,233	3,815
Public safety	35,410	25,440	9,970
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	850	586	264
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	17,690	9,517	8,173
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	62,998	40,776	22,222
Excess (Deficiency) of Revenues over Expenditures	\$ (23,054)	\$ (3,419)	\$ 19,635

See accompanying independent auditors' report.

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		Total	
	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
\$	70,956	\$ 75,733	\$ 4,777
	1,300	1,441	141
	16,229	19,037	2,808
	22,476	27,222	4,746
	36,319	39,472	3,153
	908	765	(143)
	—	8,570	8,570
	900	1,024	124
	4,486	4,516	30
	2,000	1,500	(500)
	68,071	93,946	25,875
	223,645	273,226	49,581
	31,377	34,908	3,531
	146,631	154,998	8,367
	1,099,635	1,147,407	47,772
	16,996	18,603	1,607
	5,168	6,505	1,337
	23,073	25,847	2,774
	25,042	44,681	19,639
	47,572	649,786	602,214
	1,395,494	2,082,735	687,241
	1,619,139	2,355,961	736,822
	418,658	380,967	37,691
	91,244	65,987	25,257
	212,276	160,848	51,428
	58,041	33,789	24,252
	305,300	179,069	126,231
	792,871	709,645	83,226
	343,656	194,419	149,237
	11,009	9,761	1,248
	41,523	26,993	14,530
	17,537	12,848	4,689
	259,014	199,402	59,612
	178,535	171,074	7,461
	2,729,664	2,144,802	584,862
\$	(1,110,525)	\$ 211,159	\$ 1,321,684

# STATE OF HAWAII

## **Nonmajor Special Revenue Funds Reconciliation of the Budgetary to GAAP Basis**

June 30, 2003

(Amounts in thousands)

Excess of revenues over expenditures – actual (budgetary basis)	\$	211,159
Reserve for encumbrances at year-end*		193,532
Expenditures for liquidation of prior fiscal year encumbrances		(369,641)
Transfers		198,509
Accrued liabilities		5,357
Accrued revenues		(3,250)
Excess of revenues over expenditures – GAAP basis	\$	<u>235,666</u>

\* Amounts reflect the encumbrance balances (included in continuing appropriations) for budgeted programs only.

See accompanying independent auditors' report.

# STATE OF HAWAII

## Fiduciary Funds

### Combining Statement of Fiduciary Net Assets

June 30, 2003

(Amounts in thousands)

<u>ASSETS</u>	<u>Agency Funds</u>			<u>Total Agency Funds</u>
	<u>Tax Collections</u>	<u>Custodial</u>	<u>Other</u>	
Cash and short-term investments	\$ 1,384	\$ 41,922	\$ —	\$ 43,306
Receivables – taxes	—	—	6,700	6,700
Investments:				
Repurchase agreements	—	51,556	30,497	82,053
Corporate stocks	—	—	100	100
Liquid asset funds	—	—	129	129
U.S. government securities	—	—	11	11
Total Investments	—	51,556	30,737	82,293
Total Assets	<u>\$ 1,384</u>	<u>\$ 93,478</u>	<u>\$ 37,437</u>	<u>\$ 132,299</u>
 <u>LIABILITIES</u>				
Vouchers payable	\$ 935	\$ 652	\$ 925	\$ 2,512
Due to individuals, businesses, and counties	449	92,826	36,512	129,787
Total Liabilities	<u>\$ 1,384</u>	<u>\$ 93,478</u>	<u>\$ 37,437</u>	<u>\$ 132,299</u>

See accompanying independent auditors' report.

# STATE OF HAWAII

## Fiduciary Funds

### Combining Statement of Changes in Assets and Liabilities

For the Fiscal Year Ended June 30, 2003

(Amounts in thousands)

	<u>Balance, July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 2003</u>
<b>Tax Collections:</b>				
Assets:				
Cash and short-term investments	\$ 7,378	\$ 4,254,950	\$ (4,260,944)	\$ 1,384
Total Assets	<u>\$ 7,378</u>	<u>\$ 4,254,950</u>	<u>\$ (4,260,944)</u>	<u>\$ 1,384</u>
Liabilities:				
Vouchers payable	\$ 2,834	\$ 935	\$ (2,834)	\$ 935
Due to individuals, businesses, and counties	<u>4,544</u>	<u>4,254,950</u>	<u>(4,259,045)</u>	<u>449</u>
Total Liabilities	<u>\$ 7,378</u>	<u>\$ 4,255,885</u>	<u>\$ (4,261,879)</u>	<u>\$ 1,384</u>
<b>Custodial:</b>				
Assets:				
Cash and short-term investments	\$ 64,185	\$ 2,771,537	\$ (2,793,800)	\$ 41,922
Investments	<u>38,248</u>	<u>51,556</u>	<u>(38,248)</u>	<u>51,556</u>
Total Assets	<u>\$ 102,433</u>	<u>\$ 2,823,093</u>	<u>\$ (2,832,048)</u>	<u>\$ 93,478</u>
Liabilities:				
Vouchers payable	\$ 214	\$ 652	\$ (214)	\$ 652
Due to individuals, businesses, and counties	<u>102,219</u>	<u>2,771,537</u>	<u>(2,780,930)</u>	<u>92,826</u>
Total Liabilities	<u>\$ 102,433</u>	<u>\$ 2,772,189</u>	<u>\$ (2,781,144)</u>	<u>\$ 93,478</u>
<b>Other:</b>				
Assets:				
Receivables	\$ 8,505	\$ —	\$ (1,805)	\$ 6,700
Investments	<u>33,529</u>	<u>64,103</u>	<u>(66,895)</u>	<u>30,737</u>
Total Assets	<u>\$ 42,034</u>	<u>\$ 64,103</u>	<u>\$ (68,700)</u>	<u>\$ 37,437</u>
Liabilities:				
Vouchers payable	\$ 1,451	\$ 925	\$ (1,451)	\$ 925
Due to individuals, businesses, and counties	<u>40,583</u>	<u>16,603</u>	<u>(20,674)</u>	<u>36,512</u>
Total Liabilities	<u>\$ 42,034</u>	<u>\$ 17,528</u>	<u>\$ (22,125)</u>	<u>\$ 37,437</u>
<b>Total – All Agency Funds:</b>				
Assets:				
Cash and short-term investments	\$ 71,563	\$ 7,026,487	\$ (7,054,744)	\$ 43,306
Receivables	<u>8,505</u>	<u>—</u>	<u>(1,805)</u>	<u>6,700</u>
Investments	<u>71,777</u>	<u>115,659</u>	<u>(105,143)</u>	<u>82,293</u>
Total Assets	<u>\$ 151,845</u>	<u>\$ 7,142,146</u>	<u>\$ (7,161,692)</u>	<u>\$ 132,299</u>
Liabilities:				
Vouchers payable	\$ 4,499	\$ 2,512	\$ (4,499)	\$ 2,512
Due to individuals, businesses, and counties	<u>147,346</u>	<u>7,043,090</u>	<u>(7,060,649)</u>	<u>129,787</u>
Total Liabilities	<u>\$ 151,845</u>	<u>\$ 7,045,602</u>	<u>\$ (7,065,148)</u>	<u>\$ 132,299</u>

See accompanying independent auditors' report.

### ***PART III: STATISTICAL SECTION***



# STATE OF HAWAII

## Schedule of Government-Wide Revenues

Last Two Fiscal Years

(Amounts in thousands)

Fiscal Year Ended June 30,	PROGRAM REVENUES			GENERAL REVENUES			
	Charges for Current Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Interest and Investment Income	Other	Total
2003	\$ 729,516	\$ 1,586,719	\$ 97,543	\$ 3,441,398	\$ 94,419	\$ 9,760	\$ 5,959,355
2002	612,639	1,481,083	99,634	3,285,733	130,913	93,718	5,703,720

See accompanying independent auditors' report.

# STATE OF HAWAII

## Schedule of Government-Wide Expenses by Function

Last Two Fiscal Years

(Amounts in thousands)

	<b>2003</b>	<b>2002</b>
General government	\$ 475,517	\$ 469,438
Public safety	252,741	247,205
Highways	439,923	346,241
Conservation of natural resources	48,918	30,220
Health	515,492	498,068
Welfare	1,418,224	1,335,207
Lower education	1,660,595	1,488,825
Higher education	537,709	455,037
Other education	38,161	88,605
Culture and recreation	71,738	69,354
Urban redevelopment and housing	42,713	1,236
Economic development and assistance	231,605	267,451
Interest expense	200,864	142,118
Airports	291,871	279,654
Harbors	61,448	46,315
Unemployment compensation	204,344	213,682
Nonmajor proprietary fund	789	788
Total	\$ 6,492,652	\$ 5,979,444

See accompanying independent auditors' report.

# STATE OF HAWAII

## Schedule of Revenues by Source – All Governmental Fund Types

Last Ten Fiscal Years

(Amounts in millions)

Source	For the Fiscal Year Ended June 30,									
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
<b>Taxes:</b>										
General excise	\$ 1,780	\$ 1,651	\$ 1,642	\$ 1,542	\$ 1,448	\$ 1,417	\$ 1,430	\$ 1,426	\$ 1,365	\$ 1,330
Income	1,051	1,082	1,187	1,132	1,110	1,128	1,023	1,046	959	1,006
Inheritance and estate	16	17	18	23	29	20	22	17	16	28
Liquor	41	39	38	39	39	39	38	38	38	39
Public service companies	114	93	135	119	121	120	114	104	101	92
Tobacco	72	65	55	42	42	36	36	40	35	33
Insurance companies premiums	74	69	72	69	53	87	75	85	64	173
Franchise	23	5	—	7	10	16	13	16	18	27
Transient accommodations	92	87	108	93	55	26	26	24	19	4
Liquid fuel	77	75	74	71	70	70	71	71	69	70
Motor vehicle	85	78	81	75	39	38	37	37	38	36
Hospital and nursing facility(1)	—	—	—	—	—	3	12	10	17	27
Other	13	13	13	14	34	32	34	33	33	32
Total taxes	3,438	3,274	3,423	3,226	3,050	3,032	2,931	2,947	2,772	2,897
<b>Non-taxes:</b>										
Interest and investment income	61	71	150	69	91	89	82	92	113	78
Charges for current services	215	165	236	240	220	233	207	204	254	208
Intergovernmental	1,362	1,258	1,120	1,070	1,091	1,080	1,170	1,128	835	833
Rentals	28	31	29	23	22	24	22	29	32	23
Fines, forfeitures and penalties	24	24	23	25	23	23	21	18	18	17
Licenses and fees	27	24	23	22	20	19	16	16	14	12
Other	215	253	146	165	134	90	118	116	128	95
Total Revenues – All Governmental Fund Types	\$ 5,370	\$ 5,100	\$ 5,150	\$ 4,840	\$ 4,651	\$ 4,590	\$ 4,567	\$ 4,550	\$ 4,166	\$ 4,163

(1) Effective July 1, 1993, the hospital and nursing facility tax levied was authorized by Act 315, SLH of 1993.

See accompanying independent auditors' report.

# STATE OF HAWAII

## Schedule of Expenditures by Function – All Governmental Fund Types

Last Ten Fiscal Years

(Amounts in millions)

Function	For the Fiscal Year Ended June 30,									
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
General government	\$ 429	\$ 474	483	\$ 442	\$ 489	\$ 413	\$ 404	\$ 404	\$ 423	\$ 432
Public safety	257	240	201	203	199	185	165	164	174	166
Highways	255	236	131	115	111	111	115	94	102	86
Conservation of natural resources	66	57	51	41	45	37	36	33	38	39
Health	513	500	431	399	386	329	311	279	328	309
Welfare	1,418	1,334	1,248	1,226	1,222	1,210	1,278	1,236	1,023	812
Education	2,321	2,134	1,050	1,035	1,007	949	888	891	920	868
Culture and recreation	71	68	57	56	52	52	55	57	66	60
Urban redevelopment and housing	17	12	10	10	11	15	21	26	30	14
Economic development and assistance	231	267	200	192	166	155	163	176	196	164
Social security and pension contributions	—	—	91	85	159	222	226	222	150	229
Intergovernmental	—	—	—	—	—	—	3	3	4	2
Debt service	394	363	402	384	390	406	426	416	345	321
Capital outlay	—	—	335	376	376	373	611	488	554	725
Other	—	—	13	9	28	28	20	16	11	18
Total Expenditures – All Governmental Fund Types	\$ 5,972	\$ 5,685	\$ 4,703	\$ 4,573	\$ 4,641	\$ 4,485	\$ 4,722	\$ 4,505	\$ 4,364	\$ 4,245

See accompanying independent auditors' report.

# STATE OF HAWAII

## Schedule of Ratio of Net General Obligation Bonded Debt Per Capita

Last Ten Fiscal Years

(Amounts in thousands except ratio data)

<b>Fiscal Year</b>	<b>Population(1)</b>		<b>General Obligation Bonded Debt(2)(3)</b>		<b>Less Debt Service Monies Available(2)</b>		<b>Net General Obligation Bonded Debt</b>		<b>Net General Obligation Bonded Debt Per Capita</b>
2003	1,261	\$	3,634,738	\$	148	\$	3,634,590	\$	2,882
2002	1,245		3,568,001		79		3,567,922		2,866
2001	1,227		3,225,635		110		3,225,525		2,629
2000	1,212		3,278,479		258		3,278,221		2,705
1999	1,186		3,166,880		223		3,166,657		2,670
1998	1,191		3,363,517		338		3,363,179		2,824
1997	1,192		3,075,862		435		3,075,427		2,580
1996	1,184		2,841,069		240		2,840,829		2,399
1995	1,179		2,901,651		165		2,901,486		2,461
1994	1,179		2,834,234		46		2,834,188		2,404

(1) Source: Hawaii State Department of Business, Economic Development and Tourism.

(2) Source: Hawaii State Department of Accounting and General Services, Accounting Division.

(3) Excludes Enterprise Funds and Component Unit – UH general obligation bonds.

See accompanying independent auditors' report.

# STATE OF HAWAII

## Schedule of Ratio of Annual Debt Service for General Obligation Bonded Debt to Total General Expenditures

Last Ten Fiscal Years

(Amounts in thousands except ratio data)

<b>Fiscal Year</b>		<b>Principal</b>		<b>Interest and Fees</b>		<b>Total Debt Service</b>		<b>Total General Expenditures</b>		<b>Ratio of Debt Service to General Expenditures</b>
2003	\$	242,378	\$	151,945	\$	394,323	\$	5,971,576		6.60 %
2002		233,117		129,483		362,600		5,684,875		6.38
2001		210,518		190,993		401,511		4,703,420		8.54
2000		193,075		190,497		383,572		4,572,956		8.39
1999		202,836		186,762		389,598		4,641,159		8.39
1998		231,756		174,577		406,333		4,485,334		9.06
1997		268,683		156,890		425,573		4,721,851		9.01
1996		260,156		155,888		416,044		4,504,746		9.24
1995		200,552		144,044		344,596		4,364,021		7.90
1994		169,277		151,753		321,030		4,245,217		7.56

See accompanying independent auditors' report.

# STATE OF HAWAII

## Schedule of Revenue Bond Coverage\*

### Last Ten Fiscal Years

(Amounts in thousands except coverage data)

#### Airports

Fiscal Year	Gross Revenues(1)	Operating Expenses(2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage(4)
				Principal	Interest (3)	Total	
2003	265,714	167,111	98,603	19,550	15,536	35,086	281%
2002	218,359	141,409	76,950	27,185	6,275	33,460	230
2001	334,511	123,973	210,538	48,810	48,020	96,830	217
2000	332,264	135,125	197,139	52,120	53,046	105,166	187
1999	285,353	127,136	158,217	41,705	35,349	77,054	205
1998	294,078	125,007	169,071	37,100	39,416	76,516	221
1997	317,943	126,612	191,331	37,595	59,440	97,035	197
1996	314,647	120,632	194,015	42,578	59,245	101,823	191
1995	306,848	129,376	177,472	41,130	53,786	94,916	187
1994	284,343	133,351	150,992	29,380	58,842	88,222	171

#### Harbors

Fiscal Year	Gross Revenues(5)	Operating Expenses(6)	Net Revenue Available for Debt Service	Debt Service Requirements During the Fiscal Year	Additional Debt Service Requirements	Total	Coverage(7)
				Fiscal Year	Requirements		
2003	74,069	35,214	38,855	19,652	—	19,652	198%
2002	70,873	20,992	49,881	20,093	—	20,093	248
2001	75,353	26,525	48,828	30,590	—	30,590	160
2000	68,931	21,917	47,014	31,347	—	31,347	150
1999	64,729	22,891	41,838	30,152	—	30,152	139
1998	65,659	24,348	41,311	16,815	—	16,815	246
1997	55,496	20,824	34,672	16,444	—	16,444	211
1996	52,791	20,568	32,223	15,686	—	15,686	205
1995	54,092	21,498	32,594	14,997	—	14,997	217
1994	53,364	22,264	31,100	12,956	—	12,956	240

- (1) Total operating revenues plus interest income, exclusive of interest earned on investment in financing leases.
- (2) Total operating expenses other than depreciation less (plus) excess of actual disbursements over (under) required reserve for major maintenance, renewal, and replacement, plus amounts required to be paid into the General Fund for general obligation bond requirements.
- (3) For fiscal 2003, Airports deposited \$32,250 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 2003 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."
- (4) Airports revenue bond indentures require a minimum debt service coverage percentage of 125%.
- (5) Total operating and nonoperating revenues exclusive of interest income on investment in financing leases and special facility construction fund and revenue fund investments.
- (6) Total operating expenses other than depreciation less State of Hawaii surcharge for central service expenses.
- (7) Harbors revenue bond indentures require a minimum debt service coverage percentage of 135%.

#### Source:

Airports: Audited Financial Statements and Schedules of the State of Hawaii Department of Transportation, Airports Division.  
Harbors: Audited Financial Statements and Schedules of the State of Hawaii Department of Transportation, Harbors Division.

\*Information for the revenue bonds issued by the Component Units – UH and Enterprise Funds is not available.

See accompanying independent auditors' report.

# STATE OF HAWAII

## Schedule of Legal Debt Margin

June 30, 2003

(Amounts in thousands)

Average General Fund revenues of the three preceding fiscal years ended June 30, 2001, 2002, and 2003	\$ 3,530,254
Constitutional debt limit percentage	<u>18.50%</u>
Constitutional debt limit for total principal and interest payable in a current or future year	653,097
Less total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ending June 30, 2009)	<u>516,753</u>
Legal debt margin	<u><u>\$ 136,344</u></u>

The formula for the legal debt limit is contained in Article VII, Section 13 of the State Constitution.

See accompanying independent auditors' report.



# STATE OF HAWAII

## Schedule of Demographic Statistics

### Last Ten Years

(Population amounts expressed in thousands)

<b>Year</b>	<b>Population(1)</b>	<b>Per Capita Income(2)</b>	<b>School Enrollment(3)</b>	<b>Unemployment Rate(4)</b>
2003	1,261	\$ NA	NA	3.90%
2002	1,245	NA	183,829	4.40
2001	1,227	29,002	184,546	4.40
2000	1,212	28,301	NA	4.50
1999	1,186	26,913	185,860	5.60
1998	1,191	26,201	188,069	6.20
1997	1,192	25,765	189,887	6.40
1996	1,184	25,249	186,581	6.40
1995	1,179	25,234	183,795	5.90
1994	1,179	25,044	180,428	6.10

(1) Source: Hawaii State Department of Business, Economic Development and Tourism.

(2) Source: U.S. Department of Commerce, Bureau of Economic Analysis printouts.

(3) Source: Hawaii State Department of Education records. Data represents September enrollment for public schools.

(4) Source: Hawaii State Department of Labor and Industrial Relations records. 2003 is based on data for the first 9 months.

N/A Not available for 2003, 2002, and 2000.

See accompanying independent auditors' report.

# STATE OF HAWAII

## Schedule of Bank Deposits

### Last Ten Calendar Years

(Amounts in millions)

<u>Calendar Year</u>	<u>Bank Deposits</u>
2003	\$ NA
2002	16,706
2001	15,763
2000	16,741
1999	16,107
1998	16,038
1997	14,541
1996	14,033
1995	13,149
1994	12,600

Source: Hawaii State Department of Commerce and Consumer Affairs. Data represents deposits in state chartered banks.

N/A Not available for the calendar year 2003.

See accompanying independent auditors' report.

# STATE OF HAWAII

## Schedule of Ten Largest Private Employers

June 30, 2003

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<b>Company</b>	<b>Industry</b>
Aloha Airgroup, Inc.	Air transportation
BankWest Corp.	Financial services
Hawaii Pacific Health	Health care services
Hawaiian Airlines, Inc.	Air transportation
Hawaiian Electric Industries, Inc.	Energy and financial services
Hilton Hawaii	Hotel
Kaiser Permanente Medical Care Program	Health care services
Kyo-ya Co., Ltd.	Hotel, food, retail sales, insurance
Outrigger Enterprises, Inc.	Hotel
The Queen's Health Systems	Health care services

Listed alphabetically.

Source: Hawaii Business, August 2003.

See accompanying independent auditors' report.

# STATE OF HAWAII

## Schedule of Miscellaneous Statistics

June 30, 2003

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Date of statehood	1959
Form of government	Legislative-Executive-Judicial
Number of state employees****	70,150
Area in square miles**	6,423
Miles of streets and highways****	4,299
<b>Recreation and culture:</b>	
Number of parks and historic sites***	69
Total acreage***	27,626
Number of libraries****	50
<b>Public safety:</b>	
Number of fire personnel****	1,851
Number of police personnel****	3,363
<b>Sewage (millions of gallons)****</b>	49,851
<b>Water system:</b>	
Number of services****	245,397
Consumption (millions of gallons)****	77,868
<b>Education:</b>	
Number of public schools*	246
Number of teachers*	11,629
<b>Hospitals:</b>	
Number of hospitals***	73
Number of beds***	7,625

\*\*\*\* Represents 2002 data

\*\*\* Represents 2001 data

\*\* Represents 2000 data

\* Represents 1995 data

Source: Internet (2002) revised as of September 30, 2002, except for public safety personnel and number of public schools. Public safety personnel reflects data from the counties' comprehensive annual financial reports and number of public schools reflects data from Hawaii State Department of Education records.

See accompanying independent auditors' report.

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